

## Summary Compensation Table

The following table reflects the cash and non-cash compensation for services in all capacities to Sprint by those persons who were, as of December 31, 2004, the Named Officers. All quantities of Sprint securities below are stated after giving effect to the recombination of Sprint FON common stock and PCS common stock on April 23, 2004.

Name and Principal Position	Year	Annual Compensation			Long-term Compensation Awards		
		Salary (\$)(1)	Bonus (\$)(1)	Other Annual Compensation (\$)	Restricted Stock Award(s) \$(3)	Securities Underlying Options (#)	All Other Compensation \$(4)
Gary D. Forsee (5) Chairman & Chief Executive Officer	2004	1,137,931	2,090,991	205,056(2)	7,180,800	779,400	26,220
	2003	813,410	2,532,206	198,041	12,844,751	2,148,300(6)	137,794
Robert Dellinger (7) Executive Vice President—Chief Financial Officer	2004	551,082	574,376	5,867	1,795,200	194,700	1,621
	2003	511,343	603,503	2,968	2,656,875	322,500	9,411
	2002	272,988	375,789	16,837	0	195,975	32,030
Michael B. Fuller President—Local Telecommunications Division	2004	712,914	549,376	4,510	1,795,200	194,700	13,084
	2003	641,705	581,034	7,339	750,750	387,000	19,816
	2002	518,453	729,133	7,658	1,564,800	472,774	10,639
Howard E. Janzen (8) President—Sprint Business Solutions	2004	555,044	549,376	4,911	1,795,200	194,700	26,196
	2003	308,813	642,580	29,072	449,873	241,875	56,430(9)
Len J. Lauer President & Chief Operating Officer	2004	825,863	913,758	5,236	2,937,600	318,600	1,250
	2003	652,318	625,808	8,974	3,810,000	391,950	9,000
	2002	456,441	307,014	10,026	1,564,800	444,876	7,468

- (1) Includes all amounts earned for the respective years, even if deferred under Sprint's Executive Deferred Compensation Plan. All bonuses were paid under Sprint's short-term incentive compensation plans or as one-time awards for work performed in connection with the proposed merger with Nextel.
- (2) The Compensation Committee of Sprint's board established an overall security program for Mr. Forsee in May of 2003. Sprint established the security program for its benefit rather than as a personal benefit or perquisite for Mr. Forsee. Nevertheless, the amount shown in the table includes Sprint's costs to provide Mr. Forsee with residential security systems and equipment. Under the security program, Mr. Forsee is required to use Sprint aircraft for non-business as well as business travel. The incremental costs associated with the non-business use by Mr. Forsee of Sprint aircraft are also included in the table and totaled \$138,680 for 2004.
- (3) As of December 31, 2004, the Named Officers held restricted stock or RSUs as set forth in the following table. The market value of the shares is based on a value of \$24.85 per share for Sprint common stock (the closing price on the NYSE on December 31, 2004) multiplied by the number of shares of restricted stock or RSUs. The quantities of Sprint securities below are stated after giving effect to the recombination of Sprint FON common stock and Sprint PCS common stock on April 23, 2004.

	Number of Shares		
	RSUs	Restricted Stock	Value
Mr. Forsee	1,565,081	0	\$ 38,892,263
Mr. Dellinger	331,429	0	8,235,986
Mr. Fuller	146,514	90,000	5,877,373
Mr. Janzen	128,485	0	3,192,852
Mr. Lauer	478,497	93,300	14,209,155

Each of the Named Officers has the right to receive dividends on the restricted stock and the RSUs at the same rate as on unrestricted shares and to vote the restricted stock.

The awards in 2004 were all RSUs granted on February 10, 2004 that vest 25% on the second anniversary of the grant date, and 75% on the third anniversary of the grant date.

The awards in 2003 were all RSUs. For those grants that vest, in whole or in part, within three years of the grant date, the vesting schedule is described below. When Mr. Forsee joined Sprint, under his employment contract, he received initial grants equal to 195,750 RSUs, which we refer to as Initial RSUs; and sign-on awards of 711,600 RSUs, which we refer to as Sign-on RSUs. In recognition that Mr. Forsee forfeited certain compensation and opportunities with his former employer, Sprint granted to Mr. Forsee 291,600 "make-whole" RSUs. The Initial RSUs will vest 100% on March 19, 2006; the Sign-on RSUs will vest 100% on December 31, 2007; and the "make-whole" RSUs will vest and, unless deferred, will be paid in 20% increments on each of the first four anniversaries of March 19, 2003 and on December 31, 2007, in each case subject to Mr. Forsee's continued employment with Sprint. The award to Mr. Fuller was made on March 27, 2003 and vests one-third on each of the first, second and third anniversaries of the grant date. The award to Mr. Janzen was made on May 13, 2003 and vests one-third on each of the first, second and third anniversaries of the grant date. The award to Mr. Dellinger was made on March 27, 2003, and 57,750 of the RSUs vest one-third on each of the first, second and third anniversaries of the grant date, and 187,500 vest one-third on each of the third, fourth and fifth anniversaries of the grant date. The award to Mr. Lauer was made on March 27, 2003, and 69,300 of the RSUs vest one-third on each of the first, second and third anniversaries of the grant date, and 262,500 vest one-third on each of the third, fourth and fifth anniversaries of the grant date.

The awards in 2002 were restricted stock granted on April 4, 2002 that vest 50% on each of February 28, 2005 and February 28, 2006.

- (4) Consists of amounts for 2004: (a) contributed by Sprint under the Sprint Retirement Savings Plan, (b) representing the portion of interest credits on deferred compensation accounts under Sprint's Executive Deferred Compensation Plan that are at above-market rates and (c) relocation expenses, as follows:

	Savings Plan Contribution	Above— market Earnings	Relocation
Mr. Forsee	\$ 3,075	\$ 1,587	\$ 21,558
Mr. Dellinger	897	724	0
Mr. Fuller	1,005	12,079	0
Mr. Janzen	0	0	26,196*
Mr. Lauer	1,250	0	0

- \* Relocation expenses include \$1,765 of interest paid by Sprint in 2004 on an equity advance in connection with Mr. Janzen's relocation to Kansas City.

- (5) Mr. Forsee became CEO on March 19, 2003 and Chairman on May 13, 2003.

- (6) When Mr. Forsee joined Sprint, under his employment contract, he received initial grants of options to purchase 1,252,500 shares of Sprint common stock at an exercise price equal to the fair market value on the grant date, which we refer to as the Initial Options. In recognition that Mr. Forsee forfeited certain compensation and opportunities with his former employer, Sprint granted to Mr. Forsee "make-whole" options to purchase 895,800 shares of Sprint common stock, at an exercise price equal to the fair market value on the grant date. The Initial Options will vest in 25% tranches on the first four anniversaries of the grant date, and the "make-whole" options will become fully exercisable on December 31, 2007, in each case subject to Mr. Forsee's continued employment with Sprint, and they will not be subject to accelerated vesting upon a change in control under the provisions of Sprint's equity plan.

- (7) Mr. Dellinger became employed by Sprint on March 25, 2002.

- (8) Mr. Janzen became employed by Sprint on May 12, 2003.

- (9) Includes \$1,972 of interest paid by Sprint in connection with Mr. Janzen's relocation to Kansas City.

## Option Grants

The following table summarizes options granted to the Named Officers under Sprint's stock option plans during 2004. The options shown are options to purchase Sprint series 1 common stock.

The amounts shown as potential realizable values on these options are based on arbitrarily assumed annualized rates of appreciation in the price of Sprint's common stock of 5% and 10% over the term of the options, as set forth in SEC rules. The Named Officers will realize no gain on these options without an increase in the price of Sprint common stock that will benefit all stockholders proportionately.

Unless otherwise indicated, each option listed below has the following terms. Vesting is accelerated in the event of an employee's death or permanent disability. In addition, if an option has been outstanding for at least one year, vesting is accelerated upon a change in control or an employee's normal retirement at age 65 or older. A change in control is deemed to occur if (1) someone acquires 30% or more of the voting power of Sprint stock, (2) there is a change of a majority of the directors within a two-year period in certain circumstances, or (3) there is a merger in which Sprint is not the surviving entity. The proposed merger with Nextel does not constitute a change in control with respect to these options. Sprint granted no stock appreciation rights during 2004. For other circumstances in which vesting may be accelerated, see the description of Sprint's retention program below under "—Sprint Retention Program."

### Option Grants in Last Fiscal Year

Name	Number of Securities Underlying Options Granted (#)(1)	% of Total Options Granted to Employees in Fiscal Year	Exercise or Base Price (\$/Sh)	Expiration Date	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term(\$)	
					5%	10%
Gary D. Forsee	519,600	6.8 %	17.94(2)	2/10/14	5,862,319	14,856,268
	259,800	3.4 %	18.22(3)	2/10/14	2,976,908	7,544,069
Robert Dellinger	129,800	1.7 %	17.94(2)	2/10/14	1,464,452	3,711,208
	64,900	0.8 %	18.22(3)	2/10/14	743,654	1,884,565
Michael B. Fuller	129,800	1.7 %	17.94(2)	2/10/14	1,464,452	3,711,208
	64,900	0.8 %	18.22(3)	2/10/14	743,654	1,884,565
Howard E. Janzen	129,800	1.7 %	17.94(2)	2/10/14	1,464,452	3,711,208
	64,900	0.8 %	18.22(3)	2/10/14	743,654	1,884,565
Len J. Lauer	212,400	2.8 %	17.94(2)	2/10/14	2,396,375	6,072,886
	106,200	1.4 %	18.22(3)	2/10/14	1,216,888	3,083,834

(1) This annual executive stock option grant vests 25% on each of February 10, 2005, February 10, 2006, February 10, 2007 and February 10, 2008. The number of Sprint securities are stated after giving effect to the recombination of Sprint FON common stock and PCS common stock on April 23, 2004.

(2) The fair market value of FON common stock on February 10, 2004, the date of grant.

(3) The fair market value of PCS common stock on February 10, 2004 (\$9.11), the date of grant, adjusted for the conversion rate into FON common stock in connection with the recombination of Sprint FON common stock and PCS common stock on April 23, 2004.

## Option Exercises and Fiscal Year-end Values

The following table summarizes the net value realized on the exercise of options in 2004, and the value of options outstanding at December 31, 2004, for the Named Officers. All options shown are options to purchase Sprint series 1 common stock.

### Aggregated Option Exercises in 2004 and Year-end Option Values

	Shares Acquired on Exercise (#)	Value Received (\$)	Number of Securities		Value of Unexercised	
			Exercisable (#)	Unexercisable (#)	Exercisable (\$)	Unexercisable (\$)
Gary D. Forsee	0	0	313,125	2,614,575	4,419,238	31,213,347
Robert Dellinger	0	0	200,550	512,625	2,092,140	5,352,310
Michael B. Fuller	364,766	2,622,247	1,177,209	705,262	2,178,573	7,111,600
Howard E. Janzen	0	0	60,470	376,105	878,630	3,963,018
Len J. Lauer	0	0	933,292	819,184	5,006,279	7,878,369

(1) The value of unexercised, in-the-money options is the number of shares underlying options multiplied by the difference between the exercise price of the options and the fair market value, at December 31, 2004, of \$24.85, which was the closing price of Sprint series 1 common stock on the NYSE on that date.

### Pension Plans

Under the Sprint Retirement Pension Plan, eligible employees generally accrue for each year of service an annual retirement benefit equal to 1.5% of career average compensation, subject to limitations under the Code. In addition, the Named Officers participate in a supplemental retirement plan that provides additional benefits. Under his employment agreement, Mr. Forsee is eligible for retirement benefits not to exceed 65% of his covered compensation (generally, annual base salary plus actual annual bonus), which amount will be ratably reduced if Mr. Forsee's employment with Sprint terminates before age 65, and will be offset by pension benefits otherwise payable to him by Sprint and his former employer. Assuming the following Named Officers continue to work at Sprint until age 65 and have pensionable compensation for years after 2004 equal to the pensionable compensation for 2004, the Named Officers would receive an estimated annual pension benefit, expressed as an annuity for life, as follows: Mr. Forsee—\$1,828,427, Mr. Dellinger—\$388,704, Mr. Fuller—\$332,104, Mr. Janzen—\$278,589, and Mr. Lauer—\$591,505.

In addition, Sprint has a key management benefit plan that provides for a survivor benefit in the event of the death of the participant or, in the alternative, a supplemental retirement benefit. This plan has only five active employee participants, of whom only two are Named Officers. More information on the plan is provided in the following section under "—Employment Contracts."

### Employment Contracts

#### Employment Contract with Mr. Forsee

In March 2003, Sprint entered into an employment contract with Mr. Forsee. Under the contract, Mr. Forsee is contractually entitled to an annual base salary of \$1,100,000 and is eligible for all employee benefits made available generally to other senior executive officers of Sprint, including Sprint's Short-term Incentive Plan. After 2003, Mr. Forsee is not guaranteed the payment of any annual bonus except under certain circumstances related to the termination of his employment with Sprint, but he is contractually eligible for an annual target bonus opportunity of 150% of his base salary and a maximum bonus opportunity payout of 300% of his base salary. Subject to the contract requirements, the Compensation Committee reviews and sets Mr. Forsee's compensation, as described in this Item 11 in the "—Compensation Committee Report on Executive Compensation". For a description of the options and restricted stock units granted to Mr. Forsee under his employment contract, see "—Summary Compensation Table" in this Item 11. In 2004, Sprint reimbursed Mr. Forsee \$28,862 for reasonable legal and professional fees incurred by him in connection with litigation relating to his taking the position of Chairman and CEO with Sprint, as required under the contract.

In the event Mr. Forsee's employment with Sprint is terminated, either by Sprint without cause or by Mr. Forsee for good reason, Mr. Forsee will receive his pro rata annual bonus and severance benefits equal to two times the sum of his annual base salary and his target annual bonus opportunity (three times that amount if the termination occurs during the 24-month period following a change in control, as defined in the agreement). The proposed

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merger with Nextel is not considered a change in control. In addition, in the event of such a termination, the options and restricted stock units discussed above will be subject to pro rata accelerated vesting (100% accelerated vesting if the termination is within the 24-month period following a change in control). In the event Mr. Forsee receives any payments deemed contingent on a change in control, he will not be subject to plan provisions that require a reduction of benefits to levels deductible under Section 280G of the Code, and if any excise tax is imposed on him by Section 4999 of the Code as a result of a change in control, Sprint will make him whole.

In December 2004, Mr. Forsee's employment agreement was amended to provide that upon completion of the proposed merger with Nextel, he would become the CEO and President of Sprint Nextel. Mr. Forsee waived his ability to claim that his relocation to Reston, Virginia and his loss of the Chairman's position would constitute a "Constructive Discharge" under his employment agreement. The amendment also confirms that the merger would not constitute a change in control. All other terms and conditions of the agreement remain unchanged.

Under the agreement, Mr. Forsee has agreed to certain covenants relating to competition, confidentiality, non-solicitation, non-disparagement and cooperation, his breach of which would result in forfeiture of his rights to his non-qualified pension benefit, any unpaid severance benefits and all of his unvested equity-based awards described above that are then outstanding.

On March 15, 2005, the Compensation Committee approved a second amendment to Mr. Forsee's employment agreement of March 19, 2003, which is effective and conditioned on the completion of the merger. The amendment provides for: (1) an annual base salary of \$1,400,000, subject to annual review for possible increase (but not decrease), (2) an annual short-term incentive target opportunity of not less than 170% of base salary, for an initial target opportunity of \$2,380,000, with a maximum payout of 200% of the short-term incentive opportunity (the actual payout can range from 0-200% of the target opportunity), and (3) an annual long-term performance-based incentive opportunity having a \$10 million minimum target value for the first year following completion of the merger and a \$10 million guideline target value for the second year. If the merger is completed in 2005, the short-term incentive target opportunity for 2005 will be the sum of \$2,040,000 prorated for the portion of the year before the completion of the merger and \$2,380,000 prorated for the portion of the year after the completion of the merger.

#### ***Employment Contracts with Mr. Fuller and Mr. Lauer***

Mr. Fuller and Mr. Lauer have each signed agreements that prohibit their performing services for a competitor for up to 18 months following termination of their employment. The agreements also provide severance under which they will receive 18 months of compensation and benefits following an involuntary termination of employment without cause or upon a constructive discharge following a diminution of their responsibilities or compensation, or a forced relocation in certain circumstances.

The agreements, which pre-date Sprint's current senior executive severance policy, provide enhanced severance benefits in the event Sprint terminates their employment without cause or they resign due to a diminution in responsibilities, authority, or compensation following a change in control of Sprint. The proposed merger with Nextel will not be a change of control under the agreements. Benefits include monthly salary payments for up to 35 months and an amount equal to the sum of the highest short-term plus the highest long-term incentive compensation awards received for the three performance periods before termination, paid in three installments. For purposes of the key management benefit plan, they will be deemed to have remained a Key Executive (as defined in the plan) until age 60 and interest will be credited to their accounts under the Executive Deferred Compensation Plan at the maximum rate allowed under the plan. In addition, Sprint will determine their retirement benefits assuming three years of additional service and will not impose on them any reduction to benefits for early retirement. The benefits also include life, disability, medical, and dental insurance coverage for up to 35 months following termination. Finally, these officers are not subject to plan provisions that require a reduction of benefits to levels deductible under Section 280G of the Code, and if any excise tax is imposed on them by Section 4999 of the Code as a result of a change in control, Sprint will make them whole.

#### ***Employment Contracts with Mr. Dellinger and Mr. Janzen***

In late 2003, Mr. Dellinger and Mr. Janzen signed employment agreements. The agreements contain the same non-competition and standard severance provisions as those in Mr. Fuller's and Mr. Lauer's agreements. However, Mr. Dellinger's and Mr. Janzen's agreements provide for different severance benefits following a change in control of Sprint consistent with Sprint's new policy regarding senior executive severance arrangements.

If, within the two-year period following a change in control of Sprint, Sprint terminates Mr. Dellinger's or Mr. Janzen's employment without cause or they resign due to either a forced relocation outside of the Kansas City

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area or a diminution in responsibilities, authority, or compensation, they will receive monthly salary payments for up to 24 months. During that period, they will also receive prorated targeted incentive compensation paid at the same time payouts are made for the applicable performance measurement period and will continue to participate in Sprint's retirement, medical and certain other welfare benefits as if they were active employees. The proposed merger with Nextel will not constitute a change in control under Mr. Dellinger's or Mr. Janzen's employment contract.

#### **Sprint Retention Program**

On January 17, 2005, the Compensation Committee of the Sprint board of directors adopted the Sprint retention program in order to retain certain critical officers and other employees pending the merger and contemplated spin-off of Sprint's local telecommunications business and for a period of one year after these events. The Sprint retention program provides that Sprint's executive officers, other than Messrs. Forsee and Lauer, are eligible for retention payments equal to 100% of their respective annual base salary and target short-term incentive bonus as of January 17, 2005. Under the terms of Sprint's retention program, Robert J. Dellinger, Howard E. Janzen, Timothy E. Kelly, Michael W. Stout, Thomas A. Gerke, Kathryn A. Walker, Gene M. Betts, William R. Blessing, James G. Kissinger and John P. Meyer are eligible to receive retention payments equal to one-half of their annual base salary at the time of completion of the merger or an intervening business combination. They are entitled to receive a second retention payment equal to one-half of their annual base salary, plus the amount of their target short-term incentive bonus, on the first anniversary of completion of the merger or an intervening business combination. If one of these executive officers is involuntarily terminated other than for cause, the executive officer will receive the retention payment on the executive officer's last day worked or the date on which the merger or intervening business combination is completed, whichever is later. Michael B. Fuller, President-Local Telecommunications Division, is eligible to receive one-half of his annual base salary retention payment at the time of completion of the contemplated spin-off. The balance of his base salary retention payment and the short-term incentive bonus payment are payable on the first anniversary of completion of the contemplated spin-off. If he is involuntarily terminated other than for cause, the retention payment will be made on his last day worked or the date of completion of the contemplated spin-off following the merger, whichever is later. If any covered executive officer voluntarily terminates his or her employment or is terminated for cause before a retention payment is made, the executive officer will not receive that retention payment. No retention payments will be made under the Sprint retention program if neither the merger nor an intervening business combination is completed, and no retention payments will be made to Mr. Fuller if the contemplated spin-off is not completed. Sprint anticipates that the completion of the merger and the contemplated spin-off will result in retention payments to the participating executive officers in an aggregate amount of approximately \$8.5 million.

In addition, if the merger is completed and a participating executive officer, other than Mr. Fuller, is involuntarily terminated other than for cause before the first anniversary of completion of the merger, all stock options, restricted stock, restricted stock units and any other equity based awards held by the executive officer for at least one year at the end of the executive officer's severance period will fully vest on the last day of the severance period as long as that day is on or after the date the merger is completed. If Mr. Fuller is involuntarily terminated other than for cause before the first anniversary of completion of the contemplated spin-off, all equity based awards held by him for at least one year at the end of his severance period will fully vest on the last day of the severance period as long as that day is on or after the date the merger is completed; however, if the contemplated spin-off does not occur, he will be entitled to acceleration of his equity based awards only if the involuntary termination occurs before the first anniversary of the merger.

The Sprint retention program also provides other eligible officers with retention payments of up to 100% of their annual base salaries. Certain officers will also be eligible to receive retention payments of up to the amount of their target short-term incentive bonus. Eligible officers who are involuntarily terminated other than for cause before the first anniversary of completion of the merger or the contemplated spin-off, as applicable, will be entitled to acceleration of vesting of their equity based awards. An officer who accepts a position with the company resulting from the contemplated spin-off will not be considered to have been involuntarily terminated, and will therefore not receive accelerated vesting of equity based awards, due to acceptance of that position.

#### **Key Management Benefit Plan**

Sprint has a key management benefit plan providing for a survivor benefit in the event of the death of a participant or, in the alternative, a supplemental retirement benefit. Under the plan, if a participant dies before retirement, the participant's beneficiary will receive ten annual payments each equal to 25% of the participant's highest annual salary during the five-year period immediately before the time of the participant's death. If a participant dies after retiring or becoming permanently disabled, the participant's beneficiary will receive a benefit equal to 300% (or a reduced percentage if the participant retires before age 60) of the participant's highest annual salary during the

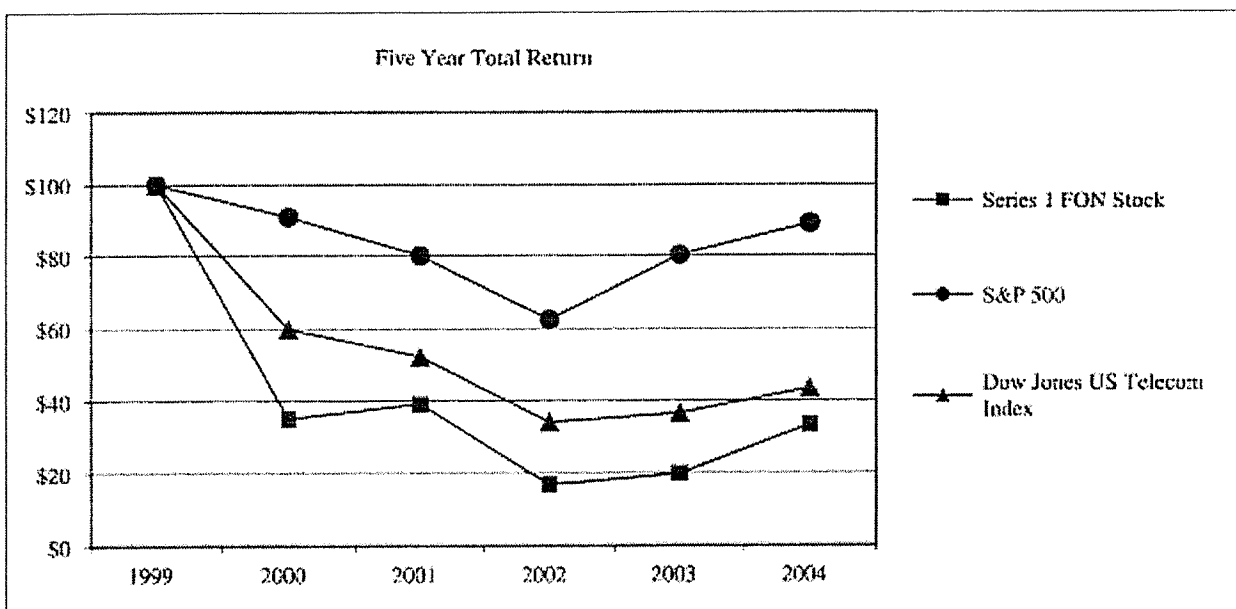
five-year period immediately before the time of retirement or disability, payable either in a lump sum or in installments at the election of the participant. At least 13 months before retirement, a participant may elect a supplemental retirement benefit in lieu of all or a portion of the survivor benefit. The supplemental retirement benefit will be the actuarial equivalent of the survivor benefit. Messrs. Fuller and Lauer are participants in the plan.

Sprint has filed these employment contracts and separation agreements with the SEC. They are available on the SEC's website at [www.sec.gov](http://www.sec.gov), and Sprint hereby incorporates them by reference.

### Performance Graphs

The information in this section shall not be deemed to be soliciting material or to be filed with the SEC under the Exchange Act or incorporated by reference in any document so filed, and is not subject to the proxy rules under, or to the antifraud liabilities of Section 18 of, the Exchange Act. The graph below compares the yearly percentage change in the cumulative total stockholder return for Sprint series 1 common stock with the S&P® 500 Stock Index and the Dow Jones US Telecommunications Index for the five-year period from December 31, 1999 to December 31, 2004. The cumulative total stockholder return for Sprint series 1 common stock has been adjusted for the periods shown for the recombination of FON common stock and PCS common stock that was effected on April 23, 2004. The graph assumes an initial investment of \$100 in Sprint common stock on December 31, 1999 and reinvestment of all dividends.

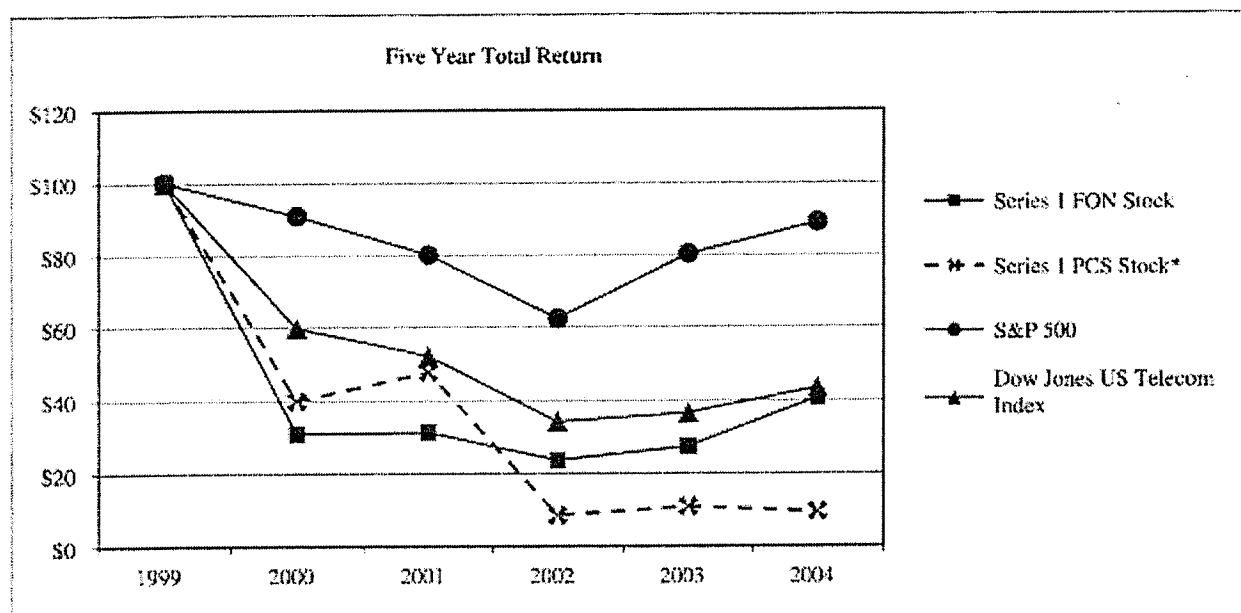
The Dow Jones US Telecommunications Index is composed of the following companies: Alltel Corp., AT&T Corp., AT&T Wireless Services Inc., BellSouth Corp., CenturyTel Inc., Cincinnati Bell Inc., Citizens Communications Co., IDT Corp., Nextel Communications Inc., Nextel Partners Inc., Qwest Communications International Inc., SBC Communications Inc., Telephone & Data Systems Inc., U.S. Cellular Corp., Verizon Communications Inc., Western Wireless Corp., Wireless Facilities Inc. and Sprint (FON Group and PCS Group were included as two separate entities until April 23, 2004, after which Sprint was included as a single entity).



	1999	2000	2001	2002	2003	2004
Series 1 FON Stock*	\$ 100.00	\$ 35.05	\$ 39.04	\$ 16.76	\$ 19.83	\$ 33.34
S&P 500	\$ 100.00	\$ 90.90	\$ 80.09	\$ 62.39	\$ 80.29	\$ 89.03
Dow Jones US Telecom Index	\$ 100.00	\$ 59.73	\$ 52.10	\$ 34.10	\$ 36.60	\$ 43.45

\* Sprint FON common stock and PCS common stock were recombined on April 23, 2004.

The graph below compares the yearly percentage change in the cumulative total stockholder return for Sprint series 1 common stock as compared with the S&P® 500 Stock Index and the Dow Jones US Telecommunications Index for the five-year period from December 31, 1999 to December 31, 2004. As a result of the recombination of the Sprint FON common stock and PCS common stock on April 23, 2004, the graph below includes the yearly percentage change in the cumulative total stockholder return for PCS common stock only through April 23, 2004. The graph assumes an initial investment of \$100 in Sprint common stock on December 31, 1999 and reinvestment of all dividends.



	1999	2000	2001	2002	2003	2004
Series 1 FON Stock	\$ 100.00	\$ 30.92	\$ 31.32	\$ 23.74	\$ 27.37	\$ 40.63
Series 1 PCS Stock	\$ 100.00	\$ 39.88	\$ 47.63	\$ 8.55	\$ 10.97	\$ 9.56*
S&P 500	\$ 100.00	\$ 90.90	\$ 80.09	\$ 62.39	\$ 80.29	\$ 89.03
Dow Jones US Telecom Index	\$ 100.00	\$ 59.73	\$ 52.10	\$ 34.10	\$ 36.60	\$ 43.45

\* Indicates total return on series 1 PCS stock through April 23, 2004 when the Sprint FON common stock and PCS common stock were recombined.

#### Compensation of Directors

##### Annual Retainer and Meeting Fees

Directors who are not employees of Sprint, whom we refer to as the Outside Directors, are each paid \$50,000 annually plus meeting fees and the following additional retainers. The Chair of the Audit Committee receives an additional annual retainer of \$10,000, and the Chair of each other board committee, except the Executive Committee, receives an additional annual retainer of \$7,500. The Lead Independent Director receives an additional annual retainer of \$75,000.

For each meeting attended, Sprint pays Outside Directors the following fees: (1) \$1,500 for board meetings, (2) \$1,500 for committee meetings, (3) \$1,500 for in-person meetings of Outside Directors, unless those meetings occur in connection with a board meeting, and (4) \$1,500 for in-person business meetings attended on Sprint's behalf. Under the 1997 Long-term Stock Incentive Program, Outside Directors can elect to use these fees to



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purchase shares of Sprint common stock. They can also elect to have the purchased shares deferred and placed in a trust. Sprint also maintains the Directors' Deferred Fee Plan under which Outside Directors may elect to defer all or some of their fees.

Outside Directors receive units representing shares of Sprint common stock credited to their accounts under the Director's Deferred Fee Plan upon becoming a director. Under an amendment adopted in February 2005, all of these units vest on the third anniversary of the director's election to the board, except that if a director leaves the board at his or her convenience, the units would vest pro rata based on years of service, and if a director leaves the board upon a change of control or otherwise at the convenience of the board, the units would vest immediately. Upon joining the Sprint board in March 2004, Mr. Bethune and Ms. Henretta were awarded 8,400 units, after giving effect to the recombination of Sprint's PCS common stock and FON common stock. Upon joining the Sprint board in September 2004, Mr. Swanson was awarded 7,500 units.

Under an amendment adopted on April 19, 2005, the vesting of the final 25% tranche of the options granted in 2002 to DuBose Ausley, an Outside Director, will be accelerated in connection with Mr. Ausley's departure from the board at the 2005 annual meeting. Options to purchase 2,455 shares of FON common stock will be accelerated.

#### ***Restricted Stock Units***

Each Outside Director serving on February 10, 2004 was awarded units representing 4,200 shares of restricted Sprint common stock. These awards vest one hundred percent on February 10, 2007 unless they vest earlier for directors who retire or are not re-elected or re-nominated. Each Outside Director who joined the board between February 10 and March 1, 2004 was awarded units representing 3,900 shares of restricted Sprint common stock. These awards vest one hundred percent on March 11, 2007 unless they vest earlier for directors who retire or are not re-elected or re-nominated. Dividend equivalents are reinvested into additional restricted stock units which vest when the underlying units vest.

#### ***Stock Ownership Guidelines***

In 2003, Sprint established director stock ownership guidelines that require Outside Directors to hold shares or share equivalents of Sprint stock equal to at least five times the current annual board retainer. Each Outside Director is expected to meet this ownership level by the later of June 10, 2008 or the fifth anniversary of joining the board. In addition, Outside Directors are expected to meet yearly interim stock ownership requirements. As of December 31, 2004, all Outside Directors have met these interim requirements.

#### ***Other Benefits***

Except as described in this paragraph, Sprint currently does not offer retirement benefits to Outside Directors. Three Outside Directors (Messrs. Ausley and Rice and Ms. Lorimer) are eligible to receive benefits under a retirement plan originally adopted in 1982. The retirement plan was amended in 1996 to eliminate the retirement benefit for any Outside Director who had not served five years as of the date of the amendment. An eligible Outside Director will receive monthly benefit payments equal to the monthly fee (not including meeting fees or additional retainers) being paid to Outside Directors at the time of the Outside Director's retirement. The monthly retirement benefit would be \$4,167 for any Outside Director retiring while the current \$50,000 annual fee remains in effect. The number of monthly benefit payments to an Outside Director under the plan will equal the number of months served as an Outside Director, up to a maximum of 120 payments.

It serves the interests of Sprint and its stockholders to enable the Outside Directors to optimally utilize Sprint's communications services. Accordingly, each Outside Director is provided with up to \$6,000 in Sprint communications services per year. They are also provided with the use of wireless devices and related equipment. The Outside Directors are reimbursed for applicable income taxes associated with these benefits. Outside Directors also may participate in Sprint's charitable matching gifts program on the same terms as Sprint employees. Under that program in 2004, Sprint would match up to \$5,000 a year in contributions by each Outside Director to an eligible institution or organization.

## Item 12. Security Ownership of Certain Beneficial Owners and Management

### Equity Compensation Plan Information

Sprint has several equity compensation plans under which Sprint may issue awards of FON common stock to employees and directors. All of these plans have been approved by Sprint's shareholders. These plans consist of the 1997 Long-Term Stock Incentive Program, the Management Incentive Stock Option Plan (MISOP), and the Employees Stock Purchase Plan (ESPP). The board of directors of Sprint authorized the Stock Option Plan (stock option grants) and the Restricted Stock Plan (awards of restricted stock) pursuant to the 1997 Long-Term Stock Incentive Program and its predecessor, which was approved by shareholders. In addition, that plan or its predecessor also provided for options to be granted to directors and director share purchases (purchase of stock by directors with director fees). The Stock Option Plan and the Restricted Stock Plan were merged with and into the 1997 Long-Term Stock Incentive Program in February 2004.

The following table provides information about the shares of FON common stock that may be issued upon exercise of awards as of year-end 2004.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights <sup>(1)</sup>	Weighted-average exercise price of outstanding options, warrants and rights <sup>(1),(2)</sup>	Number of securities remaining available for future issuance under equity compensation plans <sup>(3),(4),(5),(6)</sup>
Equity compensation plans approved by Shareholders			
FON common stock	133,453,397	\$ 26.35	96,110,780
Equity compensation plans not approved by Shareholders			
FON common stock	—	—	—

<sup>(1)</sup> Excludes purchase rights accruing under the ESPP. Under the ESPP, each eligible employee may purchase FON common stock at annual intervals at a purchase price per share equal to 85% of the market value on the grant date or the exercise date, whichever is lesser. At year-end 2004, an estimated 3.6 million shares of FON common stock were under election to purchase at a maximum purchase price of \$14.64 per share.

<sup>(2)</sup> The weighted average exercise price does not take into account the 6,038,466 shares of FON common stock issuable upon vesting of restricted stock units, which have no exercise price. The weighted average price also does not take into account the 7,303 shares of FON common stock issuable as a result of the purchase of those shares by directors with 2004 fourth quarter directors' fees; the purchase price was \$24.91 for each share of FON common stock.

<sup>(3)</sup> Of these shares, 45,373,712 shares of FON common stock were available under the 1997 Long-Term Stock Incentive Program. Although it is not Sprint's intention to do so, all of the shares, plus any shares that become available due to forfeiture of outstanding awards, could be issued in a form other than options, warrants, or rights.

<sup>(4)</sup> Includes 29,819,136 shares of FON common stock available for issuance under the ESPP.

<sup>(5)</sup> Under the 1997 Long-Term Stock Incentive Program, the number of shares increased on January 1 of each year by 1.5% of the FON common stock outstanding on that date and 1.5% of the PCS common stock, Series 1 and 2, outstanding on that date. In the recombination of the PCS common stock and the FON common stock, all outstanding options to purchase PCS common stock were converted into options to purchase FON common stock on the basis of the conversion ratio of 0.5 shares of FON common stock for each share of PCS common stock. In addition, all outstanding restricted stock units representing PCS common stock were converted into restricted stock units representing FON common stock on the basis of the conversion ratio of 0.5 shares of FON common stock for each share of PCS common stock. Following the recombination, the number of shares increases on January 1 of each year by 1.5% of the FON common stock, Series 1 and 2, outstanding on that date. No awards may be granted after April 15, 2007.

<sup>(6)</sup> Under MISOP, the number of shares increased on January 1 of each year by 0.9% of the FON common stock outstanding on that date and 0.9% of the PCS common stock, Series 1 and 2, outstanding on that date; however, the board of directors capped the shares so that no additional shares were added on January 1, 2004 or January 1, 2005. In the recombination of the PCS common stock and the FON common stock, all

outstanding options to purchase PCS common stock were converted into options to purchase FON common stock on the basis of the conversion ratio of 0.5 shares of FON common stock for each share of PCS common stock. No options may be granted after April 18, 2005.

### Security Ownership of Certain Beneficial Owners

The following table provides information about the only known beneficial owners of five percent or more of each class of Sprint's outstanding voting stock as of March 31, 2005:

Title of Class	Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Series	Percent of Class	Percent of Sprint Voting Power
Common Stock	Capital Research and Management Company (1)	114,250,250 shares (5)	Series 1	7.7%(5)	8.1%
	Capital Group International, Inc. (2)	73,777,650 shares (5)	Series 1	5.0%(5)	5.2%
	Liberty Media Corporation (3)	73,841,987 shares	Series 2	5.0%	0.5%
Preferred Stock	Liberty Media Corporation (3)	123,314 shares	Series 7	50%	0.3%
	Comcast Corporation (4)	61,726 shares	Series 7	25%	—

(1) Capital Research and Management Company, a Delaware company located at 333 South Hope Street, Los Angeles, California 90071, acts as investment adviser to various investment companies with the power to vote and/or dispose of shares of Sprint series 1 common stock.

(2) Capital Group International, Inc., a California corporation located at 11100 Santa Monica Boulevard, Los Angeles, California 90025, is the parent holding company of the following wholly owned subsidiaries with the power to vote and/or dispose of shares of Sprint series 1 common stock: Capital Guardian Trust Company, a bank and an investment adviser; Capital International Research and Management, Inc., d.b.a. Capital International, Inc.; Capital International S.A. and Capital International Limited. Shares of Sprint series 1 common stock reported by Capital Group International, Inc. include 58,780 shares resulting from the assumed conversion of \$5,123,000 principal amount of the Liberty Media 144A 4.0% convertible debentures.

(3) Liberty Media Corporation, a Delaware corporation located at 12300 Liberty Boulevard, Englewood, Colorado 80112, and certain of its consolidated subsidiaries collectively are the beneficial owners of shares of Sprint series 2 common stock and shares of seventh series preferred stock convertible into 4,010,654 shares of Sprint series 1 common stock, constituting 0.3% of the outstanding Sprint common stock, upon the election of Liberty Media Corporation.

(4) Comcast Corporation, a Pennsylvania corporation, is located at 1500 Market Street, Philadelphia, Pennsylvania 19102. The shares of seventh series preferred stock reported are convertible into 2,007,571 shares of Sprint series 2 common stock, constituting less than 0.1% of the outstanding Sprint common stock, upon the election of Comcast Corporation.

(5) Amount based solely on Schedules 13G received by Sprint as of the reporting date of the schedule.

## Security Ownership of Directors and Executive Officers

The following table states the number of shares of Sprint's series 1 common stock beneficially owned, as of March 31, 2005, by each current director, by each executive officer named in the "Summary Compensation Table" in Item 11 and by all directors and executive officers as a group. No individual director or executive officer owned more than one percent of the outstanding shares of Sprint series 1 common stock. As a group, the listed individuals owned less than 1% of the outstanding Sprint common stock. Except as otherwise indicated, each individual named has sole investment and voting power with respect to the securities shown.

### Sprint Series 1 Common Stock

	Shares Owned	Shares Covered by Exercisable Options <sup>(1)</sup>	Shares Represented by Restricted Stock Units <sup>(2)</sup>
DuBose Ausley	50,233	52,599	13,805
Gordon M. Bethune	0	0	7,732
Robert J. Dellinger	27,948	367,875	389,966
E. Linn Draper, Jr.	5,492	0	8,039
Gary D. Forsee	18,044	821,100	1,959,474
Michael B. Fuller	130,041	1,431,878	206,364
James J. Hance, Jr. <sup>(3)</sup>	25,000	0	3,720
Deborah A. Henretta	3,218	0	7,732
Irvine O. Hockaday, Jr.	48,228	42,820	13,805
Howard E. Janzen	0	109,144	197,186
Len J. Lauer	133,358	1,242,272	649,651
Linda Koch Lorimer	49,434	52,820	13,805
Charles E. Rice	79,170	52,820	13,805
Louis W. Smith	12,581	30,320	13,805
Gerald L. Storch	3,788	0	8,041
William H. Swanson	1,027	0	3,720
All directors and executive officers as a group (24 persons)	988,379	7,121,580	4,139,416

(1) These are shares that may be acquired upon the exercise of stock options exercisable, or restricted stock units to be delivered, on or within 60 days after March 31, 2005, under Sprint's 1997 Long-term Stock Incentive Program.

(2) These are unvested restricted stock units for which Sprint will issue the underlying shares of Sprint common stock after the units vest. There are no voting rights with respect to these units. These amounts do not include any restricted stock units covered by footnote 1 or any 2005 restricted stock unit awards, including awards for Outside Directors.

(3) Mr. Hance has been a director since February 8, 2005.

## Item 13. Certain Relationships and Related Transactions

Mr. Ausley, one of Sprint's Outside Directors who will not stand for re-election at the Sprint annual meeting, is an attorney and, until June 1, 2002, he was chairman at the law firm of Ausley & McMullen. In 2002, 2003 and 2004, Ausley & McMullen billed Sprint \$283,377, \$426,386 and \$502,384, respectively, for legal services provided to certain affiliates, mainly in the areas of regulatory and litigation-related advice given primarily to the local division. Daniel M. Ausley, the son of Mr. Ausley, owned directly or indirectly a 50% interest in four entities that lease space on cellular telephone towers to numerous wireless providers, including Sprint's wireless division. In 2002, 2003 and 2004, Sprint paid an aggregate of \$263,995, \$214,260 and \$214,260, respectively, to these entities. In 2004, Daniel Ausley disposed of his interests in these entities. The services provided by both Ausley & McMullen and the entities in which Mr. Ausley's son had an interest were provided on bases consistent with normal practices, on substantially the same terms as those prevailing at the time for comparable services and Sprint engaged their respective services in the ordinary course of business.

Dwayne Smith, the son of Mr. Smith, one of Sprint's Outside Directors who was determined by the board to be independent, is a Senior Negotiator in supply chain management at Sprint and until October 2004 was a Product

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Manager in long distance at Sprint. In 2002, 2003 and 2004 he received \$62,190, \$67,067 and \$74,195, respectively, in salary and other compensation. Dwayne Smith's employment at Sprint preceded his father's election to the board. The compensation provided to Dwayne Smith is consistent with that provided to other employees with equivalent responsibilities at Sprint.

Mr. Hance, one of Sprint's Outside Directors who was determined by the board to be independent, was elected to the board on February 8, 2005 from a group of candidates presented to the board by the Nominating and Corporate Governance Committee's independent search firm. Mr. Hance was a Vice Chairman of Bank of America Corporation until January 31, 2005. Bank of America Corporation is a financial services holding company, and in 2004 its investment banking subsidiary was retained to act as a co-advisor to Sprint in connection with Sprint's February 2005 agreement to lease certain of its wireless communications towers to Global Signal Inc. for approximately \$1.2 billion in cash at the time of closing, with Sprint's commitment to sublease space on a substantial portion of those towers for a minimum of ten years. Bank of America Corporation is a committed lender under Sprint's revolving credit agreement and its Long Distance accounts receivable securitization facility. Bank of America Corporation also provides typical commercial banking services to Sprint and its subsidiaries. The services are provided on bases consistent with normal investment or commercial banking practices, on substantially the same terms as those prevailing at the time for comparable advisory roles, and the engagement was entered into in the ordinary course of business. Mr. Hance had no personal involvement with Sprint's engagement of Bank of America Corporation to provide these services or Bank of America Corporation's provision of these services. The total fees paid by Sprint to Bank of America Corporation for investment and commercial banking services in 2004 and proposed to be paid in 2005 are significantly less than 0.1% of Bank of America Corporation's gross revenues for fiscal year 2004.

Sprint engages a relocation company that, among other things, purchases the former residences of executive and professional level employees to facilitate relocations made at Sprint's request. The relocation company then markets and sells the former residence without the involvement of the employee. Sprint receives any gain on the sale or reimburses the relocation company for any loss. Sprint is also responsible for costs associated with the maintenance and sale of the residence, including payment of a service fee to the relocation company. In 2003, Mr. Forsee, Sprint's Chairman and CEO, Mr. Janzen, Sprint's President-Sprint Business Solutions, and Bruce Hawthorne, Sprint's Executive Vice President and Chief Staff Officer who left Sprint in February 2004, relocated to the Kansas City area. The relocation company purchased each officer's former residence at an appraised value. The purchase prices for Mr. Forsee's, Mr. Janzen's and Mr. Hawthorne's former residences were \$2,920,000, \$372,500 and \$1,150,000, respectively. The relocation company later sold the residences for \$2,200,000, \$350,000 and \$900,000, respectively. Sprint paid the relocation company for the difference between the purchase and sale price in each case. Mr. Janzen and Michael Stout, Sprint's Executive Vice President-Chief Information Officer, received short-term equity advances under Sprint's relocation policy of \$250,000 and \$100,000, respectively, in connection with their relocations to the Kansas City area in 2003. These advances, secured by the equity in these executives' former residences, were provided by the relocation company under its agreement with Sprint. Under the terms of the agreement, Sprint paid interest to the relocation company at an annual rate of between 4% and 4.25%. In each case, the advances were outstanding for approximately three months.

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#### **Item 14. Principal Accounting Fees and Services**

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##### ***Audit Fees***

For professional services rendered for the audit of Sprint's 2004 consolidated financial statements, the reports on management's assessment regarding the effectiveness of Sprint's internal control over financial reporting and the effectiveness of internal control over financial reporting as required by the Sarbanes-Oxley Act, and the review of the financial statements included in Sprint's 2004 Forms 10-Q, KPMG billed Sprint a total of \$7.2 million in 2004.

For professional services rendered for the audit of Sprint's 2003 consolidated financial statements and the review of the financial statements included in Sprint's 2003 Forms 10-Q, Ernst & Young billed Sprint a total of \$3.9 million in 2003.

These amounts also include reviews of documents filed with the SEC, accounting consultations related to the annual audit and preparation of letters for underwriters and other requesting parties.

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***Audit-Related Fees***

For professional audit-related services rendered, KPMG billed Sprint a total of \$1.9 million in 2004. Audit-related services in 2004 generally included support related to the proposed Sprint Nextel merger and other attestation services.

For professional audit-related services rendered, Ernst & Young billed Sprint a total of \$2.7 million in 2003. Audit-related services in 2003 generally included benefit plan audits, other attestation services, security controls compliance reviews, and advisory services related to Sprint's preparation in 2003 for its 2004 assessment regarding the effectiveness of internal control over financial reporting as required by the Sarbanes-Oxley Act.

***Tax Fees***

For professional tax services rendered, KPMG billed a total of \$0.8 million in 2004. Tax services in 2004 primarily included support related to the proposed Sprint Nextel merger and the contemplated spin-off of Sprint's local telecommunications business.

For professional tax services rendered, Ernst & Young billed a total of \$2.3 million in 2003. Tax services in 2003 generally included domestic and international corporate tax compliance, planning, and advice.

***All Other Fees***

In 2004, KPMG did not bill any fees in addition to the fees described above. In 2003, Ernst & Young billed Sprint an aggregate of \$0.2 million in addition to the fees described above.

The Audit Committee considered whether the non-audit services rendered by KPMG in 2004 and Ernst & Young in 2003 were compatible with maintaining their independence as auditors of Sprint's financial statements.

The Audit Committee has adopted policies and procedures concerning Sprint's independent registered public accounting firm, including the pre-approval of services to be provided. Sprint's Audit Committee pre-approved all of the services described above that were provided after the pre-approval requirements under the Sarbanes-Oxley Act became effective on May 6, 2003. The Audit Committee is responsible for the pre-approval of all audit, audit-related, tax and non-audit services; however, pre-approval authority may be delegated to one or more members of the Audit Committee. The details of any services approved under this delegation must be reported to the full Audit Committee at its next regular meeting. Sprint's independent registered public accounting firm is generally prohibited from providing certain non-audit services under Sprint's policy, which is more restrictive than the regulations implementing the Sarbanes-Oxley Act. Any permissible non-audit service engagement must be specifically approved in advance by the Audit Committee. Sprint will provide quarterly reporting to the Audit Committee regarding all audit, audit-related, tax and non-audit services provided by Sprint's independent registered public accounting firm.

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## Part IV

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### Item 15. Exhibits, Financial Statement Schedules

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- (a) 1. The consolidated financial statements of Sprint filed as part of this report are listed in the Index to Financial Statements, Financial Statement Schedule and Exhibits.
2. The consolidated financial statement schedule of Sprint filed as part of this report is listed in the Index to Financial Statements, Financial Statement Schedule and Exhibits. All other financial statement schedules are not required under the related instructions, or are inapplicable and therefore have been omitted.
3. The following exhibits are filed as part of this report:

#### EXHIBITS

- (2) Plan of Acquisition, Reorganization, Arrangement, Liquidation or Succession
- (a) Agreement and Plan of Merger, dated as of December 15, 2004, by and among Sprint Corporation, Nextel Communications, Inc. and S-N Merger Corp. (filed as Exhibit 2 to Sprint Corporation Current Report on Form 8-K filed December 17, 2004 and incorporated herein by reference).
- (3) Articles of Incorporation and Bylaws:
- (a) Restated Articles of Incorporation, dated as of December 9, 2003 (filed as Exhibit 3(a) to Sprint Corporation Quarterly Report on Form 10-Q for the quarter ended March 31, 2004 and incorporated herein by reference).
- (b) Certificate of Designation, Preferences and Rights of Preferred Stock-Sixth Series, dated as of April 23, 2004 (filed as Exhibit 3(b) to Sprint Corporation Quarterly Report on Form 10-Q for the quarter ended March 31, 2004 and incorporated herein by reference).
- (c) Certificate of Elimination of Designations of Preferred Stock-Eighth Series, dated as of April 23, 2004 (filed as Exhibit 3(c) to Sprint Corporation Quarterly Report on Form 10-Q for the quarter ended March 31, 2004 and incorporated herein by reference).
- (d) Bylaws, as amended (filed as Exhibit 3(d) to Sprint Corporation Quarterly Report on Form 10-Q for the quarter ended March 31, 2004, and incorporated herein by reference).
- (4) Instruments defining the Rights of Sprint's Security Holders:
- (a) The rights of Sprint's equity security holders are defined in the Fifth, Sixth, Seventh and Eighth Articles of Sprint's Articles of Incorporation. See Exhibits 3(a), 3(b) and 3(c).
- (b) Provision regarding Kansas Control Share Acquisition Act is in Article II, Section 5 of the Bylaws. Provisions regarding Stockholders' Meetings are set forth in Article III of the Bylaws. See Exhibit 3(d).

- (c) Second Amended and Restated Rights Agreement, between Sprint Corporation and UMB Bank, n.a., as Rights Agent, dated as of March 16, 2004 and effective as of April 23, 2004 (filed as Exhibit 1 to Amendment No. 5 to Sprint Corporation Registration Statement on Form 8-A relating to Sprint's Rights, filed April 12, 2004, and incorporated herein by reference).
- (d) Indenture, dated as of October 1, 1998, among Sprint Capital Corporation, Sprint Corporation and Bank One, N.A., as Trustee (filed as Exhibit 4(b) to Sprint Corporation Quarterly Report on Form 10-Q for the quarter ended September 30, 1998, and incorporated herein by reference), as supplemented by the First Supplemental Indenture, dated as of January 15, 1999, among Sprint Capital Corporation, Sprint Corporation and Bank One, N.A., as Trustee (filed as Exhibit 4(b) to Sprint Corporation Current Report on Form 8-K dated February 2, 1999 and incorporated herein by reference), and as supplemented by the Second Supplemental Indenture dated as of October 15, 2001, among Sprint Capital Corporation, Sprint Corporation and Bank One, N.A. as Trustee (filed as Exhibit 99 to Sprint Corporation Current Report on Form 8-K/A dated October 17, 2001 and incorporated herein by reference).
- (e) Indenture, dated as of October 1, 1998, between Sprint Corporation and Bank One, N.A., as Trustee (filed as Exhibit 4(a) to Sprint Corporation Quarterly Report on Form 10-Q for the quarter ended September 30, 1998, and incorporated herein by reference), as supplemented by the First Supplemental Indenture, dated as of January 15, 1999, between Sprint Corporation and Bank One, N.A., as Trustee (filed as Exhibit 4(a) to Sprint Corporation Current Report on Form 8-K dated February 2, 1999 and incorporated herein by reference).



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(10) Material Agreements:

- (a) Registration Rights Agreement, dated as of November 23, 1998, among Sprint Corporation, TCI Telephony Services, Inc., Cox Communications, Inc., and Comcast Corporation (filed as Exhibit 10.2 to Amendment No. 1 to Sprint Corporation Registration Statement on Form S-3 (No. 333-64241) and incorporated herein by reference).
- (b) 364-Day Credit Agreement, dated as of June 22, 2004, among Sprint Corporation and Sprint Capital Corporation, as Borrowers, the initial Lenders named therein, as Initial Lenders, Citibank, N.A., as Administrative Agent, Citigroup Global Markets Inc. and J.P. Morgan Securities Inc., as joint lead arrangers and as book managers, J.P. Morgan Chase Bank, as syndication agent, and Bank of America, N.A., Deutsche Bank A.G. New York Branch and UBS Loan Finance LLC, as documentation agents (filed as Exhibit 10(a) to Sprint Corporation Quarterly Report on Form 10-Q for the quarter ended June 30, 2004 and incorporated herein by reference).
- (c) Agreement to Contribute, Lease and Sublease, dated as of February 14, 2005, among Sprint Corporation, certain subsidiaries of Sprint Corporation and Global Signal Inc., including as Exhibit D the Form of Lease and Sublease Agreement (filed as exhibit 10 to Sprint Corporation Current Report on Form 8-K dated February 14, 2005 and incorporated herein by reference).

(10) Executive Compensation Plans and Arrangements:

- (d) Executive Deferred Compensation Plan, as amended, including summary of certain Amendments to the Executive Deferred Compensation Plan (filed as Exhibit 10.2 to Sprint Corporation Current Report on Form 8-K dated October 11, 2004 and incorporated herein by reference).
- (e) Management Incentive Stock Option Plan, as amended (filed as Exhibit 10(d) to Sprint Corporation Quarterly Report on Form 10-Q for the quarter ended March 31, 2004 and incorporated herein by reference).
- (f) 1997 Long-Term Stock Incentive Program, as amended (filed as Exhibit 10.4 to Sprint Corporation Current Report on Form 8-K dated October 11, 2004 and incorporated herein by reference).
- (g) Sprint Supplemental Executive Retirement Plan, as amended (filed as Exhibit 10(l) to Sprint Corporation Annual Report on Form 10-K/A for the year ended December 31, 2001 and incorporated herein by reference).
- (h) Amended and Restated Centel Directors Deferred Compensation Plan (filed as Exhibit 10(c) to Sprint Corporation Quarterly Report on Form 10-Q for the quarter ended March 31, 2004 and incorporated herein by reference).
- (i) Management Incentive Plan, as amended (filed as Exhibit 10.1 to Sprint Corporation Current Report on Form 8-K dated October 11, 2004 and incorporated herein by reference).
- (j) Summary of 2005 Salaries and Short-Term Incentive Compensation of Named Executive Officers.\*
- (k) Retirement Plan for Directors, as amended (filed as Exhibit 10(u) to Sprint Corporation Annual Report on Form 10-K for the year ended December 31, 1996 and incorporated herein by reference).
- (l) Key Management Benefit Plan, as amended (filed as Exhibit 10(g) to Sprint Corporation Quarterly Report on Form 10-Q for the quarter ended September 30, 1996 and incorporated herein by reference).
- (m) Agreement Regarding Special Compensation and Post Employment Restrictive Covenants between Sprint Corporation and one of its Executive Officers (Mr. Betts) (filed as Exhibit 10(h) to Sprint Corporation Quarterly Report on Form 10-Q for the quarter ended March 31, 1996 and incorporated herein by reference).

- (n) Director's Deferred Fee Plan, as amended (filed as Exhibit 10.1 to Sprint Corporation Current Report on Form 8-K dated February 8, 2005 and incorporated herein by reference).
- (o) Form of Indemnification Agreements between Sprint Corporation and its Directors and Officers (filed as Exhibit 10(e) to Sprint Corporation Quarterly Report on Form 10-Q for the quarter ended June 30, 2003, and incorporated herein by reference).

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**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SPRINT CORPORATION

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(Registrant)

By /s/ JOHN P. MEYER

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John P. Meyer  
Senior Vice President and Controller  
Principal Accounting Officer

Date: April 29, 2005

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## MANAGEMENT REPORT

Sprint Corporation's management is responsible for the integrity and objectivity of the information contained in this document. Management is responsible for the consistency of reporting this information and for ensuring that accounting principles generally accepted in the United States are used.

In discharging this responsibility, management maintains a comprehensive system of internal controls and supports an extensive program of internal audits, has made organizational arrangements providing appropriate divisions of responsibility and has established communication programs aimed at assuring that its policies, procedures and principles of business conduct are understood and practiced by its employees.

The 2004 financial statements included in this document have been audited by KPMG LLP, independent registered public accounting firm. All previous periods' financial statements included in this document have been audited by Ernst & Young LLP, independent registered public accounting firm. All audits were conducted using standards of the Public Company Accounting Oversight Board (United States) and KPMG's and Ernst & Young's reports and consents are included herein.

The Board of Directors' responsibility for these financial statements is pursued mainly through its Audit Committee. The Audit Committee, composed entirely of directors who are not officers or employees of Sprint, meets periodically with the internal auditors and independent registered public accounting firm, both with and without management present, to assure that their respective responsibilities are being fulfilled. The internal auditors and independent registered public accounting firm have full access to the Audit Committee to discuss auditing and financial reporting matters.

/s/ Gary D. Forsee

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Gary D. Forsee  
Chairman and Chief Executive Officer

/s/ Robert J. Dellinger

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Robert J. Dellinger  
Executive Vice President and Chief Financial Officer

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders  
Sprint Corporation:

We have audited the accompanying consolidated balance sheet of Sprint Corporation and subsidiaries as of December 31, 2004, and the related consolidated statements of operations, comprehensive income (loss), cash flows, and shareholders' equity for the year ended December 31, 2004. In connection with our audit of the consolidated financial statements, we also have audited the financial statement schedule, Schedule II—Consolidated Valuation and Qualifying Accounts. These consolidated financial statements and the financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and the financial statement schedule based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Sprint Corporation and subsidiaries as of December 31, 2004, and the results of their operations and their cash flows for the year ended December 31, 2004, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Sprint Corporation's internal control over financial reporting as of December 31, 2004, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 10, 2005 expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

/s/ KPMG LLP

Kansas City, Missouri  
March 10, 2005

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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders  
Sprint Corporation:

We have audited management's assessment, included in Management's Report on Internal Control over Financial Reporting, appearing in Item 9A. Controls and Procedures, that Sprint Corporation maintained effective internal control over financial reporting as of December 31, 2004, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Sprint Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that Sprint Corporation maintained effective internal control over financial reporting as of December 31, 2004, is fairly stated, in all material respects, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also, in our opinion, Sprint Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Sprint Corporation and subsidiaries as of December 31, 2004, and the related consolidated statements of operations, comprehensive income (loss), cash flows, and shareholders' equity for the year ended December 31, 2004, and our report dated March 10, 2005 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Kansas City, Missouri  
March 10, 2005

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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders  
Sprint Corporation:

We have audited the accompanying consolidated balance sheet of Sprint Corporation (Sprint) as of December 31, 2003, and the related consolidated statements of operations, comprehensive income (loss), cash flows and shareholders' equity for each of the two years in the period ended December 31, 2003. Our audits also included the financial statement schedule for the two years in the period ended December 31, 2003 listed in the Index to Financial Statements, Financial Statement Schedule, and Exhibits. These financial statements and the schedule are the responsibility of the management of Sprint. Our responsibility is to express an opinion on these financial statements and the schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Sprint at December 31, 2003, and the consolidated results of its operations and its cash flows for each of the two years in the period ended December 31, 2003, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule for the two years in the period ended December 31, 2003, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 1, Sprint adopted SFAS No. 123, *Accounting for Stock-Based Compensation*, as amended by SFAS No. 148, *Accounting for Stock-Based Compensation—Transition and Disclosure*, an Amendment of FASB Statement No. 123, effective January 1, 2003; and, as discussed in Note 6 of the Notes to Consolidated Financial Statements, Sprint adopted SFAS No. 143, *Accounting for Asset Retirement Obligations*, effective January 1, 2003.

/s/ Ernst & Young LLP

Kansas City, Missouri  
February 3, 2004, except for  
Note 2, as to which the date is April 23, 2004, and  
Note 21, as to which the date is November 2, 2004

**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(millions)

Years Ended December 31,	Sprint Corporation		
	2004	2003	2002
<b>Net Operating Revenues</b>	<b>\$ 27,428</b>	<b>\$ 26,197</b>	<b>\$ 26,679</b>
<b>Operating Expenses</b>			
Costs of services and products	12,656	11,658	12,076
Selling, general and administrative	6,624	6,608	7,228
Depreciation and amortization	4,720	4,973	4,890
Restructuring and asset impairments	3,731	1,951	389
<b>Total operating expenses</b>	<b>27,731</b>	<b>25,190</b>	<b>24,583</b>
<b>Operating Income (Loss)</b>	<b>(303)</b>	<b>1,007</b>	<b>2,096</b>
Interest expense	(1,248)	(1,401)	(1,434)
Discount (premium) on early retirement of debt	(60)	(21)	4
Other income (expense), net	8	(89)	(265)
Income (loss) from continuing operations before income taxes	(1,603)	(504)	401
Income tax benefit	591	212	50
<b>Income (Loss) from Continuing Operations</b>	<b>(1,012)</b>	<b>(292)</b>	<b>451</b>
Discontinued operations, net	—	1,324	159
Cumulative effect of changes in accounting principle, net	—	258	—
<b>Net Income (Loss)</b>	<b>(1,012)</b>	<b>1,290</b>	<b>610</b>
Earnings allocated to participating securities	(9)	—	—
Preferred stock dividends paid	(7)	(7)	(7)
<b>Earnings (Loss) Applicable to Common Stock</b>	<b>\$ (1,028)</b>	<b>\$ 1,283</b>	<b>\$ 603</b>
<b>Diluted Earnings (Loss) per Common Share</b>			
Continuing operations	\$ (0.71)	\$ (0.21)	\$ 0.32
Discontinued operations	—	0.94	0.11
Cumulative effect of change in accounting principle, net	—	0.18	—
<b>Total</b>	<b>\$ (0.71)</b>	<b>\$ 0.91</b>	<b>\$ 0.43</b>
Diluted weighted average common shares	1,443.4	1,415.3	1,403.8
<b>Basic Earnings (Loss) per Common Share</b>			
Continuing operations	\$ (0.71)	\$ (0.21)	\$ 0.32
Discontinued operations	—	0.94	0.11
Cumulative effect of change in accounting principle, net	—	0.18	—
<b>Total</b>	<b>\$ (0.71)</b>	<b>\$ 0.91</b>	<b>\$ 0.43</b>
Basic weighted average common shares	1,443.4	1,415.3	1,400.0

See accompanying Notes to Consolidated Financial Statements.



**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**  
(millions)

	Sprint Corporation		
Years Ended December 31,	2004	2003	2002
<b>Net Income (Loss)</b>	<b>\$(1,012)</b>	<b>\$1,290</b>	<b>\$ 610</b>
<b>Other Comprehensive Income (Loss)</b>			
Unrealized holding gains (losses) on securities	33	78	(47)
Income tax benefit (expense)	(12)	(30)	17
Net unrealized holding gains (losses) on securities during the period	21	48	(30)
Reclassification adjustments for securities gains included in net income (loss)	(28)	(7)	(3)
Reclassification of income tax expense	10	3	1
Net reclassification adjustments for securities gains included in net income (loss)	(18)	(4)	(2)
Unrealized gains (losses) on qualifying cash flow hedges	(11)	(60)	38
Income tax benefit (expense)	4	23	(9)
Net unrealized holding gains (losses) on qualifying cash flow hedges	(7)	(37)	29
Reclassification adjustments for cash flow hedges losses included in net income (loss)	15	—	—
Reclassification of income tax benefit	(5)	—	—
Net reclassification adjustments for cash flow hedges losses included in net income (loss)	10	—	—
Net foreign currency translation adjustments	20	(2)	8
Reclassification adjustments for foreign currency translation gains included in net income (loss)	—	—	(7)
Total foreign currency translation adjustments	20	(2)	1
Additional minimum pension obligation	(38)	(37)	(1,157)
Income tax benefit	17	12	444
Net additional minimum pension obligation	(21)	(25)	(713)
Total other comprehensive income (loss)	5	(20)	(715)
<b>Comprehensive Income (Loss)</b>	<b>\$(1,007)</b>	<b>\$1,270</b>	<b>\$ (105)</b>

See accompanying Notes to Consolidated Financial Statements.

**CONSOLIDATED BALANCE SHEETS**  
(millions)

December 31,	Sprint Corporation	
	2004	2003
<b>Assets</b>		
Current assets		
Cash and equivalents	\$ 4,556	\$ 2,424
Accounts receivable, net of allowance for doubtful accounts of \$293 and \$276	3,107	2,876
Inventories	651	582
Deferred tax asset	1,049	26
Prepaid expenses	274	279
Other	338	424
Total current assets	9,975	6,611
Gross property, plant and equipment	43,562	53,994
Accumulated depreciation	(20,934)	(26,893)
Net property, plant and equipment	22,628	27,101
Intangibles		
Goodwill	4,401	4,401
Spectrum licenses	3,376	3,385
Other intangibles, net of accumulated amortization of \$11 and \$3	59	29
Total intangibles	7,836	7,815
Other assets	882	1,148
Total	\$ 41,321	\$ 42,675

See accompanying Notes to Consolidated Financial Statements.

**CONSOLIDATED BALANCE SHEETS (continued)**  
(millions, except per share data)

	Sprint Corporation	
December 31,	2004	2003
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities		
Current maturities of long-term debt	\$ 1,288	\$ 594
Accounts payable	2,261	2,197
Accrued interconnection costs	410	503
Accrued taxes	404	407
Advance billings	644	572
Accrued restructuring costs	168	117
Payroll and employee benefits	428	683
Accrued interest	335	378
Other	964	1,025
Total current liabilities	6,902	6,476
Noncurrent liabilities		
Long-term debt and capital lease obligations	15,916	16,841
Equity unit notes	—	1,725
Deferred income taxes	2,176	1,725
Postretirement and other benefit obligations	1,445	1,572
Other	1,114	976
Total noncurrent liabilities	20,651	22,839
Redeemable preferred stock	247	247
Shareholders' equity		
Common stock		
FON, par value \$2.00 per share, 3,000.0 shares authorized, 1,474.8 and 904.3 shares issued and outstanding	2,950	1,809
PCS, par value \$1.00 per share, 4,000.0 shares authorized, 0 and 1,035.4 shares issued and outstanding	—	1,035
Capital in excess of par or stated value	11,873	10,084
Retained earnings (deficit)	(586)	906
Accumulated other comprehensive loss	(716)	(721)
Total shareholders' equity	13,521	13,113
Total	\$41,321	\$42,675

See accompanying Notes to Consolidated Financial Statements.

**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(millions)

Years Ended December 31,	Sprint Corporation		
	2004	2003	2002
<b>Operating Activities</b>			
Net income (loss)	\$(1,012)	\$ 1,290	\$ 610
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Discontinued operation, net	—	(1,324)	(159)
Cumulative effect of change in accounting principle	—	(258)	—
Equity in net losses of affiliates	39	77	117
Depreciation and amortization	4,720	4,973	4,890
Deferred income taxes	(576)	439	544
Non-cash portion of restructuring charge	—	—	35
Net losses (gains) on sales of assets	(14)	(4)	(111)
Net losses on write-down of assets	3,540	1,873	418
Changes in assets and liabilities:			
Accounts receivable, net	(231)	75	590
Inventories and other current assets	(22)	204	(31)
Accounts payable and other current liabilities	(117)	(856)	(741)
Noncurrent assets and liabilities, net	17	(115)	(20)
Other, net	281	141	36
Net cash provided by operating activities of continuing operations	6,625	6,515	6,178
<b>Investing Activities</b>			
Capital expenditures	(3,980)	(3,797)	(4,821)
Investments in and loans to other affiliates, net	(20)	(32)	116
Investments in debt securities	(121)	(302)	—
Proceeds from debt securities	266	—	—
Proceeds from sales of assets and other	77	101	138
Other, net	(35)	—	—
Net cash used by investing activities of continuing operations	(3,813)	(4,030)	(4,567)
<b>Financing Activities</b>			
Proceeds from debt	—	44	6,061
Payments on debt	(1,884)	(2,952)	(6,703)
Proceeds from common stock issued	1,874	12	3
Dividends paid	(670)	(457)	(454)
Other, net	—	24	50
Net cash used by financing activities of continuing operations	(680)	(3,329)	(1,043)
<b>Cash from discontinued operations</b>	—	2,233	154
<b>Increase in Cash and Equivalents</b>	2,132	1,389	722
<b>Cash and Equivalents at Beginning of Period</b>	2,424	1,035	313
<b>Cash and Equivalents at End of Period</b>	<u>\$ 4,556</u>	<u>\$ 2,424</u>	<u>\$ 1,035</u>

See accompanying Notes to Consolidated Financial Statements.

**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**  
(millions)

Sprint Corporation

	Class A FT Common Stock	FON Common Stock	PCS Common Stock	Capital In Excess of Par or Stated Value	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (loss) <sup>(1)</sup>	Total
<b>Beginning 2002 balance</b>	\$ 22	\$ 1,778	\$ 987	\$ 10,076	\$ (427)	\$ 14	\$12,450
Net income	—	—	—	—	610	—	610
FON common stock dividends <sup>(2)</sup>	—	—	—	(334)	(113)	—	(447)
PCS preferred stock dividends	—	—	—	(7)	—	—	(7)
FON common stock issued	—	12	—	60	—	—	72
PCS common stock issued	—	—	13	89	—	—	102
Additional minimum pension liability	—	—	—	—	—	(713)	(713)
Other, net	—	—	—	47	(4)	(2)	41
<b>Ending 2002 balance</b>	22	1,790	1,000	9,931	66	(701)	12,108
Net income	—	—	—	—	1,290	—	1,290
FON common stock dividends	—	—	—	—	(450)	—	(450)
PCS preferred stock dividends	—	—	—	(7)	—	—	(7)
Conversion of PCS common stock underlying Class A common stock	(22)	—	22	—	—	—	—
FON common stock issued	—	19	—	121	—	—	140
PCS common stock issued	—	—	13	39	—	—	52
Stock-based compensation expense	—	—	—	52	—	—	52
Additional minimum pension liability	—	—	—	—	—	(25)	(25)
Other, net	—	—	—	(52)	—	5	(47)
<b>Ending 2003 balance</b>	—	1,809	1,035	10,084	906	(721)	13,113
Net loss	—	—	—	—	(1,012)	—	(1,012)
Common stock dividends <sup>(2)</sup>	—	—	—	(183)	(480)	—	(663)
Preferred stock dividends	—	—	—	(7)	—	—	(7)
FON common stock issued	—	104	—	1,848	—	—	1,952
PCS common stock issued	—	—	2	7	—	—	9
Stock-based compensation expense	—	—	—	129	—	—	129
Additional minimum pension liability	—	—	—	—	—	(21)	(21)
Conversion of PCS common stock into FON common stock	—	1,037	(1,037)	—	—	—	—
Other, net	—	—	—	(5)	—	26	21
<b>Ending 2004 balance</b>	\$ —	\$ 2,950	\$ —	\$ 11,873	\$ (586)	\$ (716)	\$13,521

**Shares Outstanding**

<b>Beginning 2002 balance</b>	43.1	888.8	986.7
FON common stock issued	—	6.3	—
PCS common stock issued	—	—	13.1
<b>Ending 2002 balance</b>	43.1	895.1	999.8
Conversion of common stock underlying Class A FT common stock	—	—	21.6
Cancellation of Class A FT common stock	(43.1)	—	—
FON common stock issued	—	9.2	—
PCS common stock issued	—	—	14.0
<b>Ending 2003 balance</b>	—	904.3	1,035.4
FON common stock issued	—	52.0	—
PCS common stock issued	—	—	1.6
Conversion of PCS common stock into FON common stock	—	518.5	(1,037.0)
<b>Ending 2004 balance</b>	—	1,474.8	—

(1) As of December 31, 2004, Accumulated other comprehensive loss consists of \$(759) million additional minimum pension liability, \$22 million of unrealized net gains related to investments and derivatives and \$21 million of foreign currency translation adjustment.

(2) In 2004 and 2002, FON common stock dividends were paid out of capital in excess of par or stated value in the quarterly period in which retained earnings were in a deficit position.

See accompanying Notes to Consolidated Financial Statements.

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**1. Summary of Significant Accounting Policies**

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***Basis of Consolidation and Presentation***

The consolidated financial statements include the accounts of Sprint, its wholly owned subsidiaries and subsidiaries it controls. Investments in entities in which Sprint exercises significant influence, but does not control, are accounted for using the equity method (see Note 4).

The consolidated financial statements are prepared using accounting principles generally accepted in the United States. These principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses. Actual results could differ from those estimates.

Certain prior-year amounts have been reclassified to conform to the current-year presentation. These reclassifications had no effect on the results of operations or shareholders' equity as previously reported.

***Classification of Operations***

Sprint offers an extensive range of innovative communication products and solutions, including wireless, long distance voice and data transport, global Internet Protocol or (IP), local and multiproduct bundles. Sprint's business is divided into three segments: Wireless, Local and Long distance operations. At year-end 2004, Sprint had approximately 59,900 active employees. Approximately 7,300 employees were represented by unions.

***Wireless***

Wireless has licenses to serve the entire U.S. population, including Puerto Rico and the U.S. Virgin Islands. Wireless uses a single frequency band and a single technology. Wireless provides nationwide service through a combination of operating its own digital network in major U.S. metropolitan areas, affiliating under commercial arrangements with other companies that use CDMA and roaming on other providers' networks.

***Local***

Local consists mainly of regulated incumbent local phone companies. Local provides local voice and data services, including digital subscriber line (DSL), for customers within its franchise territories, access by phone customers and other carriers to the local network, nationwide long distance services to customers located within its franchise territories, sales of telecommunications equipment, and other services within specified calling areas to residential and business customers.

***Long distance***

Long distance provides a broad suite of communications services targeted to domestic business and residential customers, multinational corporations and other communications companies. These services include domestic and international voice, data communications using various protocols such as Internet Protocol (IP) and frame relay and managed network services.

Sprint determined that business conditions and events occurring in the 2004 third quarter and impacting its Long distance operations constituted a "triggering event" requiring an evaluation of the recoverability of the Long distance long-lived assets pursuant to SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. Sprint reevaluated its strategy and financial forecasts in the 2004 third quarter resulting in a \$3.52 billion pre-tax non-cash impairment charge to the carrying value of the Long distance long-lived assets. See Note 7 for additional information.

***Income Taxes***

Sprint records deferred income taxes based on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases.

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### **Revenue Recognition**

Sprint recognizes operating revenues in accordance with Staff Accounting Bulletin No. 104, *Revenue Recognition*, and the Emerging Issues Task Force Consensus No. 00-21, *Revenue Arrangements with Multiple Deliverables* (EITF No. 00-21). Operating revenues are recognized as services are rendered or as products are delivered to customers. Certain of Sprint's bundled products and services, primarily in Wireless, have been determined to be revenue arrangements with multiple deliverables. Total consideration received in these arrangements is allocated and measured using units of accounting within the arrangement based on relative fair values.

Wireless offerings include wireless phones and service contracts sold together in its company-owned stores. The activation fee revenue associated with these direct channel sales is recognized at the time the related wireless phone is sold and is classified as equipment sales. Wireless activation fees earned prior to the 2003 third quarter adoption of EITF No. 00-21 are being deferred and amortized over the average life of the subscriber.

Certain Wireless activation fees associated with unbundled sales continue to be deferred and amortized over the average life of the subscriber. Certain Local installation fees are deferred and amortized over the average life of the customer.

### **Advertising Expense**

Sprint recognizes advertising expense as incurred. These expenses include production, media and other promotional and sponsorship costs. Advertising expenses totaled \$989 million in 2004, \$946 million in 2003, and \$1.0 billion in 2002.

### **Cash and Equivalents**

Cash equivalents generally include highly liquid investments with original maturities of three months or less. These investments include money market funds, U.S. Government and Government-Sponsored debt securities, corporate debt securities, municipal securities, repurchase agreements, and bank-related securities. All securities meet Sprint's investment policy guidelines and are stated at cost, which approximates market value. Sprint uses controlled disbursement banking arrangements as part of its cash management program. Outstanding checks included in accounts payable totaled \$175 million at year-end 2004 and \$208 million at year-end 2003. Sprint had sufficient funds available to fund the outstanding checks when they were presented for payment.

### **Allowance for Doubtful Accounts**

This reserve reflects the estimate of accounts receivable collectibility and requires management's judgement based on historical trending, industry norms and recognition of current market indicators about general economic conditions, which are predictive of the future economic viability of our customer base.

### **Investments in Debt Securities**

Investments in marketable debt securities are classified as available for sale and reported at fair value, based on quoted market prices. Interest on investments in debt securities is reinvested and recorded in "Other income (expense), net" in the Consolidated Statements of Operations. Gross unrealized holding gains and losses are reflected on the Consolidated Balance Sheets as adjustments to "Shareholders' equity—Accumulated other comprehensive income (loss)," net of related income taxes.

### **Investments in Equity Securities**

Investments in marketable equity securities are classified as available for sale and reported at fair value, based on quoted market prices. Gains and losses are recognized using an average cost method. Gross unrealized holding gains and losses are reflected on the Consolidated Balance Sheets as adjustments to "Shareholders' equity—Accumulated other comprehensive income (loss)," net of related income taxes. Impairment losses on investments in equity securities are recorded to "Other income (expense), net" in the Consolidated Statements of Operations when an investment's market value declines below Sprint's cost basis on an other than temporary basis.

### **Inventories**

Inventories in Local and Long distance are stated at the lower of cost or market. Inventories of handsets in Wireless are stated at the lower of cost or replacement value. Cost is principally determined on a first-in first-out method.

### Property, Plant and Equipment

Property, plant and equipment is recorded at cost. Generally, ordinary asset retirements and disposals are charged against accumulated depreciation with no gain or loss recognized. The cost of property, plant and equipment is generally depreciated on a straight-line basis over estimated economic useful lives. Repair and maintenance costs are expensed as incurred.

In 2004, Sprint extended the depreciable life of certain high-capacity transmission equipment from eight years to twelve years due to slower anticipated evolution of technology. This extension in life decreased the 2004 depreciation expense in Long distance by approximately \$74 million.

Network assets principally consisted of switching equipment and cell site towers, base transceiver stations, other radio frequency equipment, metallic cable and wire facilities, digital fiber-optic cable, conduit, poles, other central office and transport facilities, and transmission-related equipment. Asset lives generally ranged from three to 30 years, with 67% of the balance having lives between six and 15 years.

Building and improvements principally consisted of owned general office facilities, leasehold improvements and retail stores. Asset lives ranged from five to 30 years, with 51% of the balance having lives between five and ten years.

Administrative assets principally consisted of furniture, information technology equipment and vehicles. Asset lives ranged from three to 30 years, with 49% of the balance having lives between three and five years. Other assets principally consisted of projects under construction and land. These assets are not generally depreciable.

Sprint's gross property, plant and equipment aggregated by asset type was as follows:

	December 31,	
	2004	2003
	(millions)	
Network assets	\$ 32,138	\$ 42,281
Building and improvements	6,182	5,353
Administrative and other assets	5,242	6,360
Gross property, plant and equipment	\$ 43,562	\$ 53,994

Sprint's gross property, plant and equipment aggregated by business function was as follows:

	December 31,	
	2004	2003
	(millions)	
Wireless	\$ 19,376	\$ 18,479
Local	19,496	18,976
Long distance	2,356	14,179
Other	2,334	2,360
Gross property, plant and equipment	\$ 43,562	\$ 53,994

### Capitalized Interest

Capitalized interest totaled \$57 million in 2004, \$59 million in 2003, and \$90 million in 2002. Capitalized interest is incurred in connection with the construction of capital assets. SFAS No. 34, *Capitalization of Interest Costs*, requires that assets under construction be incurring interest cost through the payment of cash or incurrence of an interest-bearing liability in order to qualify for interest capitalization.

### Goodwill and Other Intangibles

Effective January 1, 2002, Sprint adopted Statement of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Other Intangible Assets*. Upon adoption of this statement, amortization of goodwill and indefinite life intangibles ceased, and accumulated amortization as of December 31, 2001 reduced the carrying value of these assets.



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## *Goodwill*

Goodwill represents the excess of the purchase price over the fair value of the net assets acquired in business combinations accounted for as purchases. The book value of goodwill was \$4.4 billion at December 31, 2004 and 2003 with virtually all attributed to Wireless. Sprint evaluates goodwill for impairment on an annual basis and whenever events or circumstances indicate that these assets may be impaired. Sprint determines impairment by comparing the net assets of each reporting unit, identified as Sprint's operating segments, to the respective fair value. In the event a unit's net assets exceed its fair value, an implied fair value of goodwill must be determined by assigning the unit's fair value to each asset and liability of the unit. The excess of the fair value of the reporting unit over the amounts assigned to its assets and liabilities is the implied fair value of goodwill. An impairment loss is measured by the difference between the goodwill carrying value and the implied fair value.

## *Indefinite Life Intangibles*

Sprint identified spectrum licenses and Sprint's trademark as indefinite life intangibles after considering the expected use of the assets, the regulatory and economic environment within which they are being used, and the effects of obsolescence on their use.

Wireless acquired spectrum licenses from the FCC to operate as a PCS service provider. Additionally, Wireless incurred costs related to microwave relocation to facilitate use of the spectrum licenses. Long distance acquired spectrum licenses when the broadband fixed wireless companies were acquired in 1999. Spectrum licenses are integral to the operation of our business, and in fact, we cannot operate major portions of our business without them. As long as Sprint acts within the requirements and constraints of the regulatory authorities, the renewal and extension of its licenses is reasonably certain at minimal cost. Spectrum licenses authorize wireless carriers to use radio frequency spectrum. That spectrum is a renewable, reusable resource that does not deplete or exhaust over time. At present there is no competing technology on the horizon that would render spectrum obsolete. Currently, there are no changes in the competitive or legislative environments that would put in question the future need for spectrum licenses.

The Sprint trademark is a highly respected brand with positive connotations. Current market assessments rank it as one of the most recognizable brands in the United States. Sprint has no legal, regulatory or contractual limitations associated with its trademark. Sprint cultivates and protects the use of its brand.

Sprint evaluates the recoverability of indefinite lived intangible assets on an annual basis and whenever events or circumstances indicate that these assets might be impaired. Sprint determines impairment by comparing an asset's respective carrying value to estimates of fair value using the best information available, which requires the use of estimates, judgements and projections. In the event impairment exists, a loss is recognized based on the amount by which the carrying value exceeds the fair value of the asset.

As of December 31, 2004, no impairments existed. In the 2003 third quarter, Long distance recorded a pre-tax, non-cash charge of \$1.2 billion related to the write-down in the carrying value of its Broadband Radio Services (BRS) spectrum.

The book value of indefinite life intangibles was \$3.4 billion at December 31, 2004 and 2003.

## *Definite Life Intangibles*

Definite life intangibles include the value of Sprint's patents and the value associated with acquired Wireless subscriber bases. In 2002, the intangible associated with the Wireless subscriber base of approximately \$746 million became fully amortized, at which time the accumulated amortization reduced the carrying value of the asset. In 2004, Sprint acquired a subscriber base with a value of \$35 million. Sprint evaluates the recoverability of definite life intangible assets when events or circumstances indicate that these assets might be impaired. Sprint determines impairment by comparing an asset's respective carrying value to estimates of the sum of the future cash flows expected to result from Sprint's asset, undiscounted and without interest charges. If the carrying amount is more than the recoverable amount, a loss is recognized based on the amount by which the carrying value exceeds the fair value of the asset. Definite life intangibles are amortized over their useful lives, which at year-end 2004 averaged a little over 5 years. Amortization on these assets totaled \$8 million in 2004, \$1 million in 2003, and \$4 million in 2002.

## *Restructuring Activity*

In June 2002, the Financial Accounting Standards Board (FASB) issued SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*. This standard provides accounting guidance for costs associated with

exit or disposal activities and nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, *Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)*. This standard revised guidance on when a liability for a cost associated with an exit or disposal activity is incurred. Sprint adopted this standard effective January 1, 2003 for restructuring activities occurring after that date.

### Earnings per Share

Sprint's dilutive securities consist of options, restricted stock units and Employee Stock Purchase Plan (ESPP). In 2004 and 2003, dilutive securities were antidilutive in calculating loss per share because Sprint incurred losses from continuing operations. Although not used in the determination of earnings per share for 2004 and 2003, Sprint's dilutive securities totaled 12.3 million shares in 2004 and 3.0 million shares in 2003. Sprint's dilutive securities totaled 3.8 million shares in 2002.

Certain options have been granted with exercise prices which are currently higher than market. These options are considered antidilutive and have not been included in the dilutive calculation. Sprint's antidilutive securities totaled 88 million shares in 2004, 103 million shares in 2003, and 119 million shares in 2002.

### Stock-based Compensation

Effective January 1, 2003, Sprint adopted SFAS No. 123, *Accounting for Stock-Based Compensation*, as amended by SFAS No. 148, *Accounting for Stock-Based Compensation—Transition and Disclosure, an Amendment of FASB Statement 123*, using the prospective method. Upon adoption Sprint began expensing the fair value of stock-based compensation of all grants, modifications or settlements made on or after January 1, 2003. The following table illustrates the effect on net income and earnings per share of stock-based compensation included in net income and the effect on net income and earnings per share for grants issued on or before December 31, 2002, had Sprint applied the fair value recognition provisions of SFAS No. 123.

Compensation costs are expensed over the vesting period of the award using the straight-line method. The amount of compensation cost recognized at any date is at least equal to the vested portion of the award.

Year-Ended December 31,	2004	2003	2002
		(millions)	
Net income (loss), as reported	\$(1,012)	\$1,290	\$ 610
Add: Stock-based employee compensation expense included in reported net income (loss), net of related tax effects	82	33	5
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(111)	(106)	(218)
Pro forma net income (loss)	\$(1,041)	\$1,217	\$ 397
Earnings (loss) per common share:			
Basic—as reported	\$ (0.71)	\$ 0.91	\$0.43
Basic—pro forma	\$ (0.73)	\$ 0.85	\$0.28
Diluted—as reported	\$ (0.71)	\$ 0.91	\$0.43
Diluted—pro forma	\$ (0.73)	\$ 0.85	\$0.28

Sprint recognized pre-tax charges of \$81 million and \$37 million in 2004 and 2003 related to stock-based grants issued after December 31, 2002. In 2002, pre-tax charges of \$7 million were recognized for grants of restricted stock made in 2002 and previous years.

In 2004, Sprint recognized pre-tax charges of \$48 million of non-cash expense related to the recombination of FON common stock and PCS common stock. As required by SFAS No. 123, Sprint accounted for the conversion of PCS stock options to FON stock options as a modification and accordingly applied stock option expensing to FON stock options resulting from the conversion of PCS stock options granted before January 1, 2003.

In 2003, Sprint recognized pre-tax charges of \$15 million for non-cash expense in connection with separation agreements between Sprint and William T. Esrey, former chairman and chief executive officer, Ronald T. LeMay, former president and chief operating officer, and J. Richard Devlin, former executive vice president – general counsel, external affairs and corporate secretary. The charges were associated with accounting for modifications which accelerated vesting and extended vesting and exercise periods of stock options granted in prior periods, as required by SFAS No. 123. Most of the FON stock options had exercise prices that were approximately two times the market price at the modification date, while most of the PCS stock options had exercise prices that were five times the market price at the modification date.

## 2. Recombination of Tracking Stock

On April 23, 2004, Sprint recombined its two tracking stocks. Each share of PCS common stock automatically converted into 0.5 shares of FON common stock. As of April 23, 2004, the FON Group and the PCS Group no longer exist, and FON common stock represents all of the operations and assets of Sprint, including Wireless, Local and Long distance operations. This event is generally reflected in the presentation of these financial statements as if the recombination had occurred as of the earliest period presented.

### Shareholders' Equity

The conversion of PCS common stock into FON common stock resulted in an increase in FON common stock outstanding of 518.5 million shares as of April 23, 2004. Although Sprint's Articles of Incorporation continue to authorize PCS common stock following the conversion of PCS common stock, Sprint's board of directors adopted a resolution prohibiting the issuance of any shares. Sprint intends to submit to a vote of stockholders at its 2005 annual meeting of stockholders amended and restated Articles of Incorporation which would delete references to the PCS common stock.

### Earnings Per Share

All per share amounts have been restated, for all periods presented, to reflect the recombination of the FON common stock and PCS common stock as of the earliest period presented at an identical conversion ratio (0.50). The conversion ratio was also applied to dilutive PCS securities (mainly stock options, employee stock purchase plan shares, convertible preferred stock, and restricted stock units) to determine diluted weighted average shares on a consolidated basis.

Following is previously reported earnings per share information for the FON Group and the PCS Group:

	2003		2002	
	FON Group	PCS Group	FON Group	PCS Group
Periods Ended December 31,	(millions, except earnings per share data)			
<b>Income (Loss) from Continuing Operations</b>	\$ 360	\$ (652)	\$ 1,035	\$ (584)
Discontinued operation, net	1,324	—	159	—
Cumulative effect of change in accounting principle, net	258	—	—	—
<b>Net Income (Loss)</b>	1,942	(652)	1,194	(584)
<b>Preferred stock dividends (paid) received</b>	8	(15)	7	(14)
<b>Earnings (Loss) Applicable to Common Stock</b>	\$ 1,950	\$ (667)	\$ 1,201	\$ (598)
<b>Diluted Earnings (Loss) per Common Share <sup>(1)(2)</sup></b>				
Continuing operations	\$ 0.41	\$ (0.65)	\$ 1.17	\$ (0.59)
Discontinued operation	1.47	—	0.18	—
Cumulative effect of change in accounting principle, net	0.29	—	—	—
<b>Total</b>	\$ 2.16	\$ (0.65)	\$ 1.34	\$ (0.59)
<b>Diluted weighted average common shares</b>	903.2	1,028.7	893.3	1,015.8
<b>Basic Earnings (Loss) per Common Share <sup>(2)</sup></b>				
Continuing operations	\$ 0.41	\$ (0.65)	\$ 1.17	\$ (0.59)
Discontinued operation	1.47	—	0.18	—
Cumulative effect of change in accounting principle, net	0.29	—	—	—
<b>Total</b>	\$ 2.16	\$ (0.65)	\$ 1.35	\$ (0.59)
<b>Basic weighted average common shares</b>	900.9	1,028.7	892.1	1,015.8
<b>DIVIDENDS PER COMMON SHARE</b>				
FON common stock	\$ 0.50	\$ —	\$ 0.50	\$ —
Class A common stock	\$ —	\$ —	\$ 0.125	\$ —

(1) As the effects of including potentially dilutive PCS securities were antidilutive, they were not included in the diluted weighted average common shares outstanding for the PCS Group, nor were they included in the calculation of diluted earnings per share.

(2) Earnings per share amounts may not add due to rounding.

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### 3. Proposed Merger and Contemplated Spin-off

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In December 2004, the boards of directors of Sprint Corporation and Nextel Communications, Inc. each unanimously approved a strategic merger combining Sprint and Nextel in what we intend to be a "merger of equals." When the proposed merger is completed, Sprint will change its name to Sprint Nextel Corporation and the Sprint Nextel common stock will be quoted on the New York Stock Exchange. Existing shares of Sprint common stock will remain outstanding as Sprint Nextel common stock as Sprint is the acquiring entity. Under the terms of the merger agreement, at closing each share of Nextel class A common stock and Nextel class B common stock will be converted into shares of Sprint Nextel common stock and Sprint Nextel non-voting common stock, respectively, as well as a small per share amount of cash, with a total value expected to equal 1.3 shares of Sprint Nextel common stock. Nextel zero-coupon, convertible, redeemable preferred stock will be converted into Sprint Nextel zero-coupon, convertible, redeemable preferred stock.

The proposed merger is subject to shareholder approval, as well as various regulatory approvals. It is also subject to other customary closing conditions and is expected to be completed in the second half of 2005.

Sprint and Nextel intend to spin off Sprint's local telecommunications business after the proposed merger is completed. In order to facilitate the spin-off on a tax-free basis, the exact allocation of cash and shares of Sprint Nextel common stock that Nextel common stockholders will receive in the proposed merger will be adjusted at the time the merger is completed. The aggregate cash portion of the merger consideration is capped at \$2.8 billion.

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### 4. Investments

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At December 31, 2004 Sprint carried \$341 million in investment asset value: \$65 million of which was included in "Current assets—other" and \$276 million in "Other assets" on the Consolidated Balance Sheets.

At December 31, 2003, Sprint carried \$548 million in investment asset value: \$125 million of which was included in "Current assets—other" and \$423 million was included in "Other assets" on the Consolidated Balance Sheets.

Specific investment types and the related carrying amounts include:

#### *Investments in Debt Securities*

During 2004 and 2003, Sprint invested in marketable debt securities. As of December 31, 2004, \$65 million of Sprint's investments in debt securities were classified as "Current assets—other" and \$91 million were reflected in "Other assets" on the Consolidated Balance Sheets. As of December 31, 2003, \$125 million of debt securities were classified as "Current assets—other" and \$177 million were reflected in "Other assets." At December 31, 2004, the debt securities carried in "Other assets" all have maturities prior to December 31, 2006.

Sprint also invested in debt securities with original or remaining maturities at purchase of 90 days or less. The securities were included in "Cash and equivalents."

Interest on these investments is reinvested and recognized in "Other income (expense), net" in the Consolidated Statements of Operations. Sprint recognized approximately \$11 million of interest income on these investments in 2004 compared to \$3 million in 2003. Accumulated unrealized holding gains and losses were immaterial in both 2004 and 2003.

#### *Investments in Equity Securities*

The cost of investments in marketable equity securities, primarily consisting of EarthLink common stock, was \$90 million and \$134 million at year-end 2004 and 2003, respectively. Accumulated unrealized holding gains were \$42 million (net of \$25 million tax) at year-end 2004. Comparatively, at year-end 2003, the accumulated unrealized holding gains were \$38 million (net of \$23 million tax). Accumulated unrealized holding gains were included in "Accumulated other comprehensive income (loss)" on the Consolidated Balance Sheets.

At year-end 2004, Sprint held 12.3 million shares of EarthLink common stock, down from 18.9 million shares at year-end 2003. These securities were reflected in "Other assets" on the Consolidated Balance Sheets. The forecasted sale of these shares was hedged with variable prepaid forward contracts, which began maturing in the 2004 fourth quarter and will continue to mature through the 2005 fourth quarter.

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In the 2004 fourth quarter, in connection with the maturity of certain EarthLink variable prepaid forward contracts, 5.6 million shares were used to settle approximately \$48 million of the forward contracts recorded in outstanding long-term debt. Sprint sold an additional 1.0 million shares in the open market upon settlement of the contracts. Sprint recognized a \$10.8 million gain on these transactions.

In the 2003 second quarter, Sprint sold 10.8 million EarthLink common shares for \$66 million. Shares were sold both to EarthLink, Inc. and in the open market. Sprint recognized a \$3 million loss on the sales.

#### ***Cost Method Investments***

Sprint no longer carries any cost method investment related to EarthLink preferred shares. In the 2003 second quarter, Sprint converted its remaining cost method investment in EarthLink preferred shares into 18 million shares of EarthLink common stock, which is a marketable equity security.

In the 2002 second quarter, Sprint completed an analysis of the valuation of this investment, which resulted in a write-down of \$241 million to market value. This charge was included in "Other income (expense), net" in Sprint's Consolidated Statements of Operations.

#### ***Equity Method Investments***

At year-end 2004 and 2003, investments accounted for using the equity method consisted primarily of Sprint's investment in Virgin Mobile USA. These investments were reflected in "Other assets" on the Consolidated Balance Sheets. Certain other equity method investments are carried at zero value.

##### ***Virgin Mobile USA***

Sprint's investment in Virgin Mobile USA was \$20 million at year-end 2004 and \$41 million at year-end 2003. Sprint determined that Virgin Mobile USA is not a variable interest entity and therefore carries it as an equity method investment.

This joint venture with the Virgin Group was originally entered into in the 2001 fourth quarter. Virgin Mobile USA launched services in June 2002. Since its inception, Sprint has contributed approximately \$180 million to the venture in the forms of cash and discounted network services, thereby satisfying 100% of its original commitments. In 2004, Sprint advanced \$10 million to Virgin Mobile USA in the form of a loan to be repaid in 2005. An additional \$10 million was advanced in the form of a loan in January 2005. Sprint's board of directors has approved up to \$35 million in loans to Virgin Mobile USA. Under the terms of the joint venture agreement, Sprint is guaranteed a \$20 million return of capital in the event of liquidation.

##### ***BidCo***

During 2002, Wireless' investment in BidCo was dissolved. In the 2002 fourth quarter, Sprint received \$5 million, its final share of the FCC's return of deposit for licenses in the NextWave spectrum auction, after receiving \$38 million in the 2002 second quarter representing its 85% share of the deposit for licenses. At dissolution a \$5 million loss was recognized.

##### ***Pegaso***

In the 2002 third quarter, Wireless sold its investment in Pegaso to Telefonica Moviles. Sprint also reached an agreement with Pegaso and the other shareholders of Pegaso for payment in connection with the cancellation of Sprint's Services Contract. Sprint's book investment in Pegaso was zero due to previous recognition of its share of losses. Sprint received \$28 million from Telefonica Moviles in the 2002 third quarter, and in October 2002 received an additional final payment, net of foreign withholding tax, of \$35 million for its investment in Pegaso.

##### ***Other investments***

In the 2002 fourth quarter, Sprint liquidated a partnership and received cash proceeds of \$148 million. Associated with this transaction, Sprint extinguished a \$150 million borrowing from the partnership. Sprint recorded a \$1 million loss on the investment.

In the 2002 second quarter, Call-Net, a Canadian long-distance provider, finalized a comprehensive recapitalization proposal that altered Long distance's existing ownership in this investment, which had been carried at zero value since the 2000 fourth quarter. Sprint invested approximately \$16 million in new Call-Net shares as

part of this recapitalization. Since this is an equity method investment, Sprint recognized previously unrecognized losses in the amount of this additional investment. Additionally, Sprint and Call-Net agreed to a new ten year branding and technology services agreement for which Sprint receives royalties.

Combined, unaudited, summarized financial information (100% basis) of entities accounted for using the equity method was as follows:

	2004	2003	2002
	(millions)		
Results of operations			
Net operating revenues	\$1,244	\$ 831	\$ 674
Operating loss	\$ (181)	\$(279)	\$(304)
Net loss	\$ (206)	\$(255)	\$(469)
Financial position			
Current assets	\$ 239	\$ 260	
Noncurrent assets	465	480	
Total	\$ 704	\$ 740	
Current liabilities	\$ 448	\$ 294	
Noncurrent liabilities	267	337	
Partners' capital	363	289	
Owners' equity	(374)	(180)	
Total	\$ 704	\$ 740	

## 5. Financial Instruments

### Fair Value of Financial Instruments

Sprint estimates the fair value of its financial instruments using available market information and appropriate valuation methodologies. As a result, the following estimates do not necessarily represent the values Sprint could realize in a current market exchange. These amounts have not been comprehensively revalued for purposes of these financial statements since December 31, 2004. Therefore, estimates of fair value after year-end 2004 may differ significantly from the amounts presented below.

The carrying amounts and estimated fair values of Sprint's financial instruments at year-end were as follows:

	2004	
	Carrying Amount	Estimated Fair Value
	(millions)	
Cash and equivalents	\$ 4,556	\$ 4,556
Investments in securities	313	313
Japanese yen <sup>(1)</sup>	148	148
Total debt	17,204	19,568
Redeemable preferred stock	247	284

	2003	
	Carrying Amount	Estimated Fair Value
	(millions)	
Cash and equivalents	\$ 2,424	\$ 2,424
Investments in securities	497	497
Japanese yen <sup>(1)</sup>	160	160
Total debt	17,435	19,153
Equity units <sup>(2)</sup>	1,738	490
Redeemable preferred stock	247	222

(1) Yen are held on deposit to satisfy certain capital lease obligations. See Note 9 for additional information.

(2) Equity units included senior notes of \$1.725 billion and the purchase contract adjustment payment liability of \$13 million in 2003. See Note 10 for more information on equity units.

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The carrying amounts of Sprint's cash and equivalents approximate fair value at year-end 2004 and 2003. The estimated fair value of investments in securities was based on quoted market prices. The estimated fair value of long-term debt was based on quoted market prices for publicly traded issues. The estimated fair value of equity units was based on quoted market prices. The estimated fair value of all other issues was based on either the Black-Scholes pricing model, the present value of estimated future cash flows using a discount rate based on the risks involved, or quoted market prices when available.

### ***Accounting for Derivative Instruments***

#### ***Risk Management Policies***

Sprint's derivative instruments include interest rate swaps, stock warrants, variable prepaid forward contracts, credit forward contracts, and foreign currency forward contracts. Sprint's derivative transactions are used principally for hedging purposes. The Board has authorized Sprint to enter into derivative transactions, and all transactions comply with Sprint's risk management policies.

Sprint enters into interest rate swap agreements to manage exposure to interest rate movements and achieve an optimal mixture of floating and fixed-rate debt while minimizing liquidity risk. The interest rate swap agreements designated as fair value hedges effectively convert Sprint's fixed-rate debt to a floating rate through the receipt of fixed-rate amounts in exchange for floating-rate interest payments over the life of the agreement without an exchange of the underlying principal amount. Sprint enters into interest rate swap agreements designated as cash flow hedges to reduce the impact of interest rate movements on future interest expense by effectively converting a portion of its floating-rate debt to a fixed rate.

In certain business transactions, Sprint is granted warrants to purchase the securities of other companies at fixed rates. These warrants are supplemental to the terms of the business transactions and are not designated as hedging instruments.

Sprint enters into variable prepaid forward contracts which reduce the variability in expected cash flows related to a forecasted sale of the underlying equity securities held as available for sale.

Sprint enters into fair value hedges through credit forward contracts which hedge changes in fair value of certain debt issues.

Sprint's foreign exchange risk management program focuses on reducing transaction exposure to optimize consolidated cash flow. Sprint enters into forward contracts and options in foreign currencies to reduce the impact of changes in foreign exchange rates. Sprint's primary transaction exposure results from payments made to and received from overseas telecommunications companies for completing international calls made by Sprint's domestic customers and the operation of its international subsidiaries.

#### ***Interest Rate Swaps***

The interest rate swaps met all the required criteria under derivative accounting rules for the assumption of perfect effectiveness resulting in no recognition of changes in their fair value in earnings during the life of the swap. Sprint held both cash flow hedges and fair value hedges in interest rate swaps in 2002. Sprint held only fair value hedges during 2003 and 2004.

Sprint recorded a \$19 million asset in 2004 compared to a \$26 million asset in 2003 resulting from changes in the fair value of the interest rate swaps. The increase in value for these swaps has been recorded in "Other assets" on the Consolidated Balance Sheets. As the swaps have been deemed perfectly effective, an offset was recorded to the underlying "Long-term debt."

Sprint recorded a \$12 million pre-tax increase to Other comprehensive income (loss) for the year ended December 31, 2002, resulting from gains on cash flow hedges. The change in Other comprehensive income (loss) is included in "Net unrealized gains (losses) on qualifying cash flow hedges" on the Consolidated Statements of Comprehensive Income (Loss).

#### ***Stock Warrants***

The stock warrants are not designated as hedging instruments and changes in the fair value of these derivative instruments are recognized in earnings during the period of change. Sprint's net derivative gains and losses on stock warrants were immaterial for the years ended December 31, 2004, 2003 and 2002.

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#### *Net Purchased Equity Options*

The net purchased equity options embedded in variable prepaid forward contracts are designated as cash flow hedges. In the 2004 fourth quarter, approximately 5.6 million shares of EarthLink common stock were used to settle a portion of the prepaid forward contracts. This resulted in a \$10 million after tax loss related to the cash flow hedges. Prepaid forward contracts associated with the forecasted sale of approximately 12.3 million shares of EarthLink common stock remain outstanding at December 31, 2004 and will settle in 2005. Accumulated unrealized losses related to these hedges were \$20 million (net of \$12 million tax) at year-end 2004. These unrealized losses were included in "Accumulated other comprehensive loss" on the Consolidated Balance Sheets.

Sprint recorded a \$7 million after tax decrease for the year ended December 31, 2004 in Other comprehensive income (loss), a \$37 million after tax decrease for the year ended December 31, 2003 and a \$17 million after tax increase for the year ended December 31, 2002 resulting from gains and losses on these cash flow hedges. The changes in Other comprehensive income (loss) are included in "Net unrealized gains (losses) on qualifying cash flow hedges" on the Consolidated Statements of Comprehensive Income (Loss).

#### *Credit Forward Contracts*

Sprint held fair value hedges in credit forward contracts during 2003 and 2002 to hedge changes in fair value of certain debt issues. As there is a high correlation between the credit forward contracts and the debt issues being hedged, fluctuations in the value of the credit forward contracts are generally offset by changes in the fair value of the debt issues. A nominal amount was recorded in 2003 and 2002 on these hedges in the Consolidated Statements of Operations. In 2003, the credit forward contracts were settled.

#### *Foreign Currency Contracts*

Foreign currency forward contracts and options held during the period were not designated as hedges as defined in SFAS No. 133, and changes in the fair value of these derivative instruments are recognized in earnings during the period of change.

Sprint had no outstanding foreign currency forward contracts at year-end 2004. At both year-end 2003 and 2002, Sprint had outstanding forward contracts to buy various foreign currencies of \$2 million. The forward contracts open at year-end 2003 and 2002 all had original maturities of six months or less. At year-end 2004, Sprint had \$19 million equivalent notional amount of zero-cost option collars in various foreign currencies outstanding. There were no outstanding foreign currency zero-cost option collars at year-end 2003 and 2002. Including hedge costs, net losses were immaterial in 2004, 2003 and 2002.

#### *Concentrations of Credit Risk*

Sprint's accounts receivable are not subject to any concentration of credit risk. Sprint controls credit risk of its interest rate swap agreements and foreign currency contracts through credit approvals, dollar exposure limits and internal monitoring procedures. In the event of nonperformance by the counterparties, Sprint's accounting loss would be limited to the net amount it would be entitled to receive under the terms of the applicable interest rate swap agreement or foreign currency contract. However, Sprint does not anticipate nonperformance by any of the counterparties to these agreements.

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### **6. Asset Retirement Obligations**

Sprint adopted Statement of Financial Accounting Standard (SFAS) No. 143, *Accounting for Asset Retirement Obligations*, on January 1, 2003. This standard provides accounting guidance for legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction or development and (or) normal operation of those assets. According to the standard, the fair value of an asset retirement obligation (ARO liability) should be recognized in the period in which (1) a legal obligation to retire a long-lived asset exists and (2) the fair value of the obligation based on retirement cost and settlement date is reasonably estimable. Upon initial recognition of the ARO liability, the related asset retirement cost should be capitalized by increasing the carrying amount of the related long-lived asset.

Sprint's network is primarily located on owned and leased property and utility easements. In Long distance and Local, a majority of the leased property has no requirement for remediation at retirement. The leased property of Wireless has potential remediation requirements. Sprint expects to maintain its property as a necessary component of infrastructure required to maintain operations or FCC licensing. Sprint has recorded the liability and



related accretion expense presently required for the ultimate satisfaction of these requirements, and these amounts are immaterial.

Adoption of SFAS No. 143 affected the cost of removal historically recorded by Local. Consistent with regulatory requirements and industry practice, Local historically accrued costs of removal in its depreciation reserves. These costs of removal do not meet the SFAS No. 143 definition of an ARO liability. Upon adoption of SFAS No. 143, Sprint recorded a reduction in its historical depreciation reserves of approximately \$420 million to remove the accumulated excess cost of removal, resulting in a cumulative effect of change in accounting principle credit, net of tax, in the Consolidated Statements of Operations of \$258 million. The impact of this accounting change on income (loss) from continuing operations was a decrease in Local's 2003 depreciation expense of approximately \$40 million and an increase to 2003 expenses incurred for removal costs of approximately \$20 million recognized as incurred over the year.

The following table illustrates the effect on Sprint's net income (loss) had Sprint applied SFAS No. 143 in 2002:

Years ended December 31,	2003	2002
	<i>(millions, except per share amounts)</i>	
Net income, as reported	\$ 1,290	\$ 610
Deduct: Cumulative effect of change in accounting principle, net of related tax effects	(258)	—
Add: Historically accrued cost of removal included in depreciation reserves, less cash removal expenses, net of related tax effects	—	10
Adjusted net income	1,032	620
Preferred stock dividends paid	(7)	(7)
Adjusted earnings applicable to common stock	\$ 1,025	\$ 613
<b>Diluted and basic earnings per share</b>		
Net income, as reported	\$ 0.91	\$ 0.43
Deduct: Cumulative effect of change in accounting principle, net of related tax effects	(0.18)	—
Add: Historically accrued cost of removal included in depreciation reserves, less cash removal expenses, net of related tax effects	—	0.01
Adjusted diluted and basic earnings per share	\$ 0.73	\$ 0.44
Diluted weighted average shares outstanding	1,415.3	1,403.8
Basic weighted average shares outstanding	1,415.3	1,400.0

## 7. Restructuring and Asset Impairments

### Organizational Realignment

In the 2003 fourth quarter, Sprint undertook an initiative to realign internal resources to enhance our focus on the needs and preferences of two distinct consumer types—business and individuals. This business transformation initiative is enabling the enterprise to more effectively and efficiently use its asset portfolio to create customer-focused communication solutions. One of the goals of this initiative is to create a more efficient cost structure. As decisions are made to meet this specific goal (Organizational Realignment), charges are recognized for severance costs associated with work force reductions.

The decisions made in the 2003 fourth quarter and 2004 first quarter are expected to result in the involuntary separation of approximately 2,550 employees. The decisions made in the 2004 second quarter to consolidate call center activity and respond to the continued competitive pressures in the long-distance market are expected to result in the involuntary separation of approximately 2,350 additional employees. In October 2004, Sprint announced strategic plans that will result in additional work force reductions of up to 1,000 employees achieved through attrition, and voluntary and involuntary separations. As of December 31, 2004, approximately 5,000 separations have been completed.

Sprint has recognized pre-tax charges of \$130 million and \$59 million in 2004 and 2003 for the Organizational Realignment primarily associated with severance benefits. Sprint currently expects the aggregate pre-tax charges will not exceed \$215 million. Actions associated with these decisions should be completed in the first half of 2005.

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#### *Other Restructuring Activity*

In the 2003 fourth quarter, Sprint announced the termination of the development of a new billing platform (Wireless Billing Platform Termination). These decisions resulted in pre-tax charges of \$351 million in the 2003 fourth quarter. The charge for asset impairments was \$339 million and the remaining \$12 million was accrued for other contractual obligations. In the 2004 third quarter, Sprint recorded an expense reduction of \$2 million as a result of finalizing the contractual obligations associated with this action.

In the 2003 second quarter, Sprint announced the wind-down of its Web Hosting business. Restructurings of other Long distance operations also occurred in the continuing effort to create a more efficient cost structure (Web Hosting Wind-down). These decisions resulted in pre-tax charges of \$376 million in 2003 and \$63 million in 2004. The aggregate charge for asset impairments was \$316 million, the aggregate charge for employee terminations was \$13 million and the remaining \$110 million was for facility lease terminations. The severance charges are associated with the involuntary employee separation of approximately 600 employees. As of December 31, 2004, substantially all activities associated with this wind-down have been completed and Sprint has recognized \$439 million in pre-tax charges.

In the 2002 fourth quarter, Sprint announced a consolidation in its Network, Information Technology, and Billing and Accounts Receivable organizations, as well as in other areas of Sprint, in the on-going effort to streamline operations and maintain a competitive cost structure (One Sprint Consolidation). These decisions resulted in a \$146 million pre-tax charge consisting of severance costs associated with work force reductions totaling \$58 million, and the remaining \$88 million was accrued for other exit costs primarily associated with the termination of real estate leases. The severance charge is associated with the involuntary employee separation of approximately 2,100 employees. In the 2003 fourth quarter, Sprint completed an analysis to true up original estimates, and that analysis resulted in a \$12 million reduction of liabilities. The remaining commitment has been reclassified as other current and non-current liabilities.

In the 2002 fourth quarter, Sprint announced it would reduce wireless operating expenses through a work force reduction (Wireless Consolidation). This action, which was undertaken to create a more competitive cost structure for the business, resulted in a \$43 million pre-tax charge. The charge for severance costs totaled \$25 million, and the remaining \$18 million was accrued for other exit costs primarily associated with the termination of real estate leases. The severance charge was associated with the involuntary employee separation of approximately 1,600 employees. In the 2003 fourth quarter, Sprint completed an analysis to true up original estimates, and that analysis resulted in a \$5 million reduction of liabilities. The remaining commitment has been reclassified as other current and non-current liabilities.

In the 2002 third quarter, Sprint announced a restructuring integrating its E|Solutions' web hosting sales, mobile computing consulting, marketing, and product sales support capabilities into Sprint Business while integrating E|Solutions' customer service operations into Network Services. Additionally, Sprint announced that Long distance would discontinue offering and internally supporting facilities-based Digital Subscriber Line (DSL) services to customers (collectively, the Long distance Consolidation). These decisions resulted in a \$202 million pre-tax charge. The charge for asset impairments was \$142 million, severance costs totaled \$22 million, and the remaining \$38 million was accrued for other exit costs associated with the termination of real estate leases and other contractual obligations. The severance charge was associated with the involuntary separation of approximately 1,100 employees. In the 2003 fourth quarter, Sprint completed an analysis to true up original estimates, and that analysis resulted in an \$18 million reduction associated with the asset impairment charge and a \$15 million reduction of liabilities. The remaining commitment has been reclassified as other current liabilities.

In the 2002 first quarter, Sprint announced plans to close five Wireless customer solution centers, as well as additional steps to reduce operating costs in its network, sales and distribution, and customer solutions business units (Wireless Customer Service Center Closures). These decisions resulted in a \$23 million pre-tax charge. The charge for severance costs was \$13 million with the remaining \$10 million being for other exit costs, primarily for the termination of real estate leases. The severance charge was associated with the involuntary separation of approximately 2,600 employees. In the 2002 third quarter, Sprint performed an analysis to finalize the restructuring estimates recorded in the 2002 first quarter. This analysis resulted in a \$6 million reduction of liabilities. The remaining commitment has been reclassified as other current liabilities.

The 2004 and 2003 activity is summarized as follows:

	2004 Activity			December 31, 2004 Liability Balance
	December 31, 2003 Liability Balance	Total Restructuring Charge	Cash Payments (millions)	
<b>Restructuring Events</b>				
Web Hosting Wind-down	\$ 6	\$ (2)	\$ 4	\$ —
Severance	45	65	17	93
Other exit costs				
Organizational Realignment	54	122	109	67
Severance	—	8	—	8
Other exit costs				
Wireless Billing Platform Termination	12	(2)	10	—
Other exit costs				
<b>Total</b>	<b>\$117</b>	<b>\$191</b>	<b>\$ 140</b>	<b>\$ 168</b>

	2003 Activity						December 31, 2003 Liability Balance
	December 31, 2002 Liability Balance	Total Restructuring Charge	Cash Payments	Non-cash/ Adjustments	Write-offs/ Expense	Reclass to Other Liabilities	
<b>Restructuring Events—2003</b>							
Web Hosting Wind-down	\$ —	\$ 15	\$ 9	\$ —	\$ —	\$ —	\$ 6
Severance	—	45	—	—	—	—	45
Other exit costs							
Organizational Realignment	—	59	5	—	—	—	54
Severance							
Wireless Billing Platform Termination	—	12	—	—	—	—	12
Other exit costs							
<b>Restructuring Events—2002</b>							
One Sprint Consolidation	58	—	50	—	8	16	—
Severance	51	—	7	—	(20)	24	—
Other exit costs							
Wireless Consolidation	22	—	21	—	(1)	—	—
Severance	16	—	4	(3)	(4)	5	—
Other exit costs							
Long distance Consolidation	8	—	8	—	—	—	—
Severance	30	—	9	—	(15)	6	—
Other exit costs							
Wireless Customer Service Center Closures	2	—	1	—	—	1	—
Other exit costs							
<b>Restructuring Events—2001</b>							
Sprint ION Termination	43	—	21	—	(16)	6	—
Severance	47	—	17	(9)	(4)	17	—
Other exit costs							
<b>Total</b>	<b>\$277</b>	<b>\$131</b>	<b>\$ 152</b>	<b>\$ (12)</b>	<b>\$ (52)</b>	<b>\$ 75</b>	<b>\$ 117</b>

#### Other Asset Impairments

Sprint determined that business conditions and events occurring in the 2004 third quarter and impacting its Long distance operations constituted a "triggering event" requiring an evaluation of the recoverability of the Long distance long-lived assets pursuant to SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*.

The industry-wide business conditions and events included the continuing impacts of the highly-competitive long distance market, the related aggressive pricing, recent changes in the regulatory climate negatively impacting the

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long-term ability of Long distance to bridge the last mile in the consumer and small business market segments, product substitution and customers' accelerated demands for cost-effective, advanced, IP-driven telecommunications solutions requiring transparent wireline and wireless connectivity.

In light of these industry-wide business conditions and events, Sprint reevaluated its strategy and financial forecasts in the 2004 third quarter. Sprint intends to focus sales efforts and resources on being a leader in telecommunications solutions, by emphasizing (1) integrated telecommunications solutions, and (2) markets in which Sprint can leverage its unique portfolio of wireless and wireline assets.

Evaluations of asset recoverability are performed at the lowest asset or asset group level for which identifiable cash flows are largely independent of the cash flows of other assets or asset groups. Due to the integrated nature of the Long distance network, Sprint conducted its testing of the asset group at the Long distance entity level (excluding assets held for sale), as this is the lowest level for which identifiable cash flows are available. Further, it was concluded that the fiber-optic backbone constituted the primary asset of the Long distance asset group. Accordingly, cash flows were projected over the remaining useful life of the fiber-optic backbone. These cash flow projections reflect estimated future operating results, considering all relevant circumstances and events, and estimated capital expenditures required to maintain, but not to increase, the service potential of the asset group. The resulting undiscounted future cash flows were less than the carrying value of the Long distance asset group, requiring that the asset group be reduced to fair value.

The fair value of the asset group was determined by discounting the cash flow projections at a 10% discount rate, reflecting a risk-adjusted weighted average cost of capital. The resulting fair value of the asset group required a \$3.52 billion pre-tax non-cash impairment charge, reducing the net carrying value of Long distance property, plant and equipment by about 60%, to \$2.29 billion at September 30, 2004.

In October 2004, Sprint completed the sale of its wholesale Dial IP business for \$34 million. These assets were classified as held for sale at September 30, 2004, and an associated pre-tax non-cash charge of \$21 million was recorded in the 2004 third quarter to adjust the carrying value of these assets to fair value.

In the 2003 third quarter, Sprint recorded a pre-tax, non-cash charge of \$1.2 billion related to the write-down in the carrying value of its BRS spectrum. Sprint's ongoing evaluation of its business use for this asset resulted in a decision to end pursuit of a residential fixed wireless strategy. This decision required an impairment analysis of the asset. Sprint is now focusing its efforts on a broad range of alternative strategies. Sprint is continuing to invest in the spectrum, is monitoring technology and industry developments, and is involved in efforts to achieve favorable regulatory rulings with respect to this spectrum.

In the 2003 first quarter, Sprint recorded a \$10 million asset impairment associated with the termination of a software development project.

In the 2002 fourth quarter, Sprint recorded charges for asset impairments of \$56 million. Long distance recorded a network asset impairment of \$14 million. Wireless recorded an asset impairment of \$42 million related to abandoned network projects.

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## 8. Short-term Borrowings

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At year-end 2004 and 2003, Sprint had no short-term notes payable or commercial paper outstanding.

In June 2004, Sprint entered into a new revolving credit facility with a syndicate of banks. The \$1.0 billion facility is unsecured, with no springing liens, and is structured as a 364-day credit line with a subsequent one-year, \$1.0 billion term-out option. Sprint does not intend to draw against this facility and had no outstanding borrowings as of December 31, 2004.

Sprint has a Wireless accounts receivable asset securitization facility that provides Sprint with up to \$500 million of additional liquidity. The facility, which expires in June 2005, does not include any ratings triggers that would allow the lenders involved to terminate the facility in the event of a credit rating downgrade. The maximum amount of funding available is based on numerous factors and will fluctuate each month. Sprint has not drawn against the facility and had no outstanding borrowings as of December 31, 2004 and 2003, respectively.

Sprint has a Long distance accounts receivable asset securitization facility that provides Sprint with up to \$700 million of additional liquidity. The facility, which expires in August 2005, does not include any ratings triggers that would allow the lenders involved to terminate the facility in the event of a credit rating downgrade. The maximum

amount of funding available is based on numerous factors and will fluctuate each month. As of December 31, 2004 and 2003, respectively, Sprint had no outstanding borrowings under this facility.

In addition, Sprint had standby letters of credit serving as backup to various obligations of approximately \$123 million at year-end 2004.

Any borrowings Sprint may incur are ultimately limited by certain debt covenants. Under its most restrictive debt covenant, which is an interest coverage ratio, Sprint had additional borrowing capacity of up to \$10.7 billion at year-end 2004. This covenant is contained in the new revolving credit facility, which is referenced in Exhibit 10(b) to this Annual Report on Form 10-K/A, and limits debt, as defined in the agreement, through the limitation of interest on the additional debt. The same restrictive covenant is contained in the Wireless and the Long distance accounts receivable asset securitization facilities. Sprint is currently in compliance with all debt covenants associated with its borrowings.

See Note 9 for information on Current maturities of long-term debt.

## 9. Long-term Debt and Capital Lease Obligations

Sprint's long-term debt and capital lease obligations at year-end were as follows:

	Maturing	2004	2003
		(millions)	
Senior notes	2004 to 2032	\$ 15,919	\$ 15,891
4.8% to 8.8%(1)			
Debentures and notes	2004 to 2022	400	450
6.8% to 9.3%			
First mortgage bonds	2004 to 2025	579	666
6.5% to 9.8%			
Capital lease obligations	2004 to 2086	215	294
1.4% to 11.2%			
Other	2004 to 2006	91	134
		17,204	17,435
Current maturities of long-term debt		(1,288)	(594)
Long-term debt and capital lease obligations		\$ 15,916	\$ 16,841

(1) Sprint's weighted average effective interest rate related to these borrowings was 7.1% for the year-ended 2004 and 7.2% for the year-ended 2003. The effective interest rate includes the effect of interest rate swap agreements. See Note 5 for more details regarding interest rate swaps.

Scheduled principal payments during each of the next five years are as follows:

	(millions)
2005	\$ 1,288
2006	1,743
2007	1,640
2008	1,364
2009	602

Included in the above schedule are payments to be made in connection with various capital lease obligations. A substantial portion of the capital lease payments will be in Japanese yen and Sprint already satisfied this obligation by depositing the present value of the future yen payment obligations at various banks. These amounts are included on the Consolidated Balance Sheet in "Other Assets." Based on December 31, 2004 outstanding balances, total Japanese capital lease payments included in the above schedule are \$79 million in 2005 and \$110 million in 2006.

In the 2004 fourth quarter, Sprint purchased \$95 million of its senior notes before their schedule maturities. These notes had an interest rate of 4.8% and a maturity date of August 2006. Sprint recorded a premium of \$2 million and \$1 million of unamortized debt costs associated with this repayment.

In the 2004 third quarter, Sprint paid \$13 million of its capital lease obligations before their scheduled maturities. Sprint also purchased \$516 million of its senior notes before their scheduled maturities. These notes had interest rates ranging from 6.0% to 6.9% and maturity dates ranging from 2007 to 2028. Sprint recorded a premium of \$38 million and \$2 million of unamortized debt costs associated with this repayment.

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In the 2004 second quarter, Sprint purchased \$750 million of its senior notes related to the equity units before their scheduled maturities. The notes had an interest rate of 6.0% and a maturity date of August 2006. Sprint recorded a premium of \$20 million and \$9 million of unamortized debt costs associated with this repayment.

In the 2003 third quarter, Sprint repaid, before scheduled maturities, \$418 million of its long-term debt. The prepayments consisted of current maturities of the \$300 million Export Development Canada loan with an interest rate of 2.8% and \$34 million of its senior notes with interest rates ranging from 5.7% to 5.9%. The prepayments also included \$84 million of Local's first mortgage bonds with interest rates ranging from 9.1% to 9.3% and maturity dates ranging from 2019 to 2021. Sprint recorded a net premium of \$2 million associated with these prepayments.

In the 2003 first quarter, Sprint completed a tender offer to purchase \$1.1 billion principal amount of its senior notes before their scheduled maturities. The notes had interest rates ranging from 5.7% to 5.9% and maturity dates ranging from 2003 to 2004. A premium of \$19 million was paid associated with these prepayments.

In the 2002 fourth quarter, Sprint repaid \$150 million of notes payable relating to a revolving credit facility. Sprint made a \$150 million investment in the entity that provided this credit at the time it was formed in 1997. Sprint liquidated this investment and received a cash distribution approximating its original investment. Sprint also repaid, before scheduled maturities, \$67 million of its senior notes. These borrowings had interest rates ranging from 6.0% to 7.1% and maturities ranging from 2006 to 2008. Sprint recorded a discount of \$4 million associated with this prepayment.

In the 2002 first quarter, Sprint issued \$5 billion of debt securities through a private placement. These borrowings have interest rates ranging from 7.9% to 8.8% and maturities ranging from 2005 to 2032. As a condition to the sale of the securities, Sprint conducted an exchange offer that allowed the original securities to be exchanged for substantially identical securities registered with the Securities and Exchange Commission. This exchange offer was completed in June 2002.

#### **Other**

Substantially all of Sprint's senior notes, including the senior notes issued in connection with Sprint's equity units, have been issued by Sprint Capital Corporation, a wholly-owned finance subsidiary, and have been fully and unconditionally guaranteed by Sprint, the parent corporation.

The indentures and financing agreements of certain other subsidiaries contain provisions limiting cash dividend payments on subsidiary common stock held by Sprint. As a result, \$489 million of those subsidiaries' \$3.0 billion total retained earnings were restricted at year-end 2004. The flow of cash in the form of advances from the subsidiaries to Sprint is generally not restricted.

At December 2004, \$796 million of debt outstanding represents first mortgage debt and other capital lease obligations and is secured by \$15.3 billion of gross property, plant and equipment.

Sprint has complied with all restrictive and financial covenants relating to its debt arrangements at year-end 2004.

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#### **10. Equity Unit Notes**

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In the 2001 third quarter, Sprint completed a registered offering of 69 million equity units, each with a stated amount of \$25. Net proceeds from the issuance were approximately \$1.7 billion after deducting the underwriting discount and other offering expenses and are included in "Equity unit notes" on the Consolidated Balance Sheets at December 31, 2003.

Each equity unit initially consisted of a corporate unit. Each corporate unit consisted of a forward purchase contract and \$25 principal amount of senior notes (Notes) of Sprint's wholly owned subsidiary, Sprint Capital Corporation. The corporate unit could be converted by the holder into a treasury unit consisting of the forward purchase contract and a treasury portfolio of zero-coupon U.S. treasury securities by substituting the treasury securities for the Notes. The underlying Notes or treasury portfolio were pledged to Sprint to secure the holder's obligations under the forward purchase contract.

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### Forward Purchase Contract

As a component of the equity units, the forward purchase contracts originally obligated the holders to purchase, and obligated Sprint to sell, on August 17, 2004, a variable number of newly issued shares of PCS common stock, ranging from approximately 58 million to 70 million shares depending on the market price of PCS common stock. As a result of the recombination of PCS common stock and FON common stock on April 23, 2004, the forward purchase contracts obligated the holders to purchase, and Sprint to sell, a variable number of shares of newly issued FON common stock, ranging from approximately 29 million to 35 million shares. These forward purchase contracts included a provision permitting the equity unit holders to benefit from or "participate" in any dividends declared on the common stock during the contract period. On August 17, 2004 the forward purchase contracts were settled by the issuance of approximately 35 million shares of FON common stock in exchange for \$1.7 billion in cash.

### Notes

The Notes originally had an interest rate of 6% per annum, payable quarterly in arrears.

In May 2004, Sprint purchased \$750 million principal amount of the Notes before their scheduled maturity. Sprint recorded costs of \$29 million consisting of a \$20 million premium and \$9 million of unamortized debt costs associated with this prepayment.

In May 2004, Sprint successfully remarketed approximately \$940 million principal amount of the Notes. The interest rate on the Notes was reset to 4.8% effective May 24, 2004. The remarketed Notes will mature August 17, 2006. The remaining \$35 million principal amount of outstanding Notes was retained by the holders of those Notes. These Notes were also reset to the new interest rate.

Following the remarketing of the Notes, the Notes were no longer pledged to secure the obligations under the purchase contracts. Proceeds received by the previous Note holders from the remarketing were used by the collateral agent to purchase other securities that were pledged as security.

As of December 2004, \$880 million of the remarketed Notes are included in "Long-term debt and capital lease obligations" on the Consolidated Balance Sheets.

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## 11. Redeemable Preferred Stock

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The redeemable preferred stock outstanding at year-end is as follows:

	2004	2003
	(millions, except per share and share data)	
Seventh series preferred stock—stated value \$1,000 per share, 300,000 shares authorized, 246,766 shares outstanding, voting, cumulative \$6.73 quarterly dividend rate	\$ 247	\$ 247

### Seventh Series Preferred Stock

Sprint issued a series of convertible preferred stock in 1998 that is currently convertible into approximately 32.5 shares of FON common stock for each Seventh series share. If not converted by the holder or earlier redeemed by Sprint, the Seventh series preferred stock is mandatorily redeemable in November 2008 at the stated value plus any accrued but unpaid dividends.

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## 12. Common Stock

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On April 23, 2004, Sprint recombined its two tracking stocks. Each share of PCS common stock automatically converted into 0.5 shares of FON common stock. As of April 23, 2004, the FON Group and the PCS Group no longer exist, and FON common stock represents all of the operations and assets of Sprint, including Wireless, Local and Long distance.

In the first quarter of 2003 France Telecom (FT) converted 34.4 million shares of Series 3 PCS common stock into shares of Series 1 PCS common stock. At the same time, FT converted 21.6 million shares of PCS common stock underlying its Class A FT common stock into Series 1 PCS common stock.

Upon the issuance of the PCS shares underlying the Class A FT common stock, there were no more underlying shares of PCS or FON stock. The par value of the Class A FT common stock was automatically reduced to \$0.00 per share from \$0.50 per share. In the fourth quarter of 2003, the Class A FT shares were cancelled.

### **Classes of Common Stock**

Series 1 FON common stock—Designated for general public—At the end of 2004, authorized shares totaled 2.5 billion, issued and outstanding shares totaled 1,389.0 million.

Series 1 PCS common stock—Designated for general public—At the end of 2004, authorized shares totaled 3.0 billion. There were no shares outstanding.

Series 2 FON common stock—Designated for Cable Partners—At the end of 2004, authorized shares totaled 500 million, issued and outstanding shares totaled 85.8 million. A share of Series 2 FON common stock has an economic interest equal to one share of Series 1 FON common stock, but  $\frac{1}{10}$  the vote of a share of Series 1 FON common stock on most matters. The holders of Series 2 FON common stock have the right to transfer these shares, and upon transfer, these shares convert into Series 1 FON common stock which have a full vote per share.

Series 2 PCS common stock—Designated for Cable Partners—At the end of 2004, authorized shares totaled 1.0 billion. There were no shares outstanding.

### **Common Stock Reserved for Future Grants**

At year-end 2004, common stock reserved for future grants under plans providing for the grant of stock options and other equity-based awards, future grants under the employees stock purchase plan or future issuances under various other arrangements included:

	Shares (millions)
Employees Stock Purchase Plan	26.2
Employee savings plans	24.1
Automatic Dividend Reinvestment Plan	2.3
Officer and key employees' and directors' stock options and other equity-based awards	66.2
Conversion of Preferred stock	8.0
Other	0.2
	127.0

### **Shareholder Rights Plan**

Under Sprint's Shareholder Rights Plan (Plan), one half of a preferred stock purchase right is attached to each share of FON stock. The rights may be redeemed by Sprint at \$0.01 per right and will expire in June 2007, unless extended. The rights are exercisable only if certain takeover events occur. Each right entitles the holder to purchase  $\frac{1}{1,000}$  of a share (Unit) of a no par Preferred Stock-Sixth Series at \$275 per Unit. Under the terms of the Plan, at least every three years the Nominating and Corporate Governance Committee of Sprint's board of directors is required to consider whether the maintenance of the Plan continues to be in the best interests of Sprint and its stockholders.

Preferred Stock-Sixth Series is voting, cumulative and accrues dividends on a quarterly basis generally equal to the greater of \$100 per share or 2,000 times the total per share amount of all FON stock dividends. No shares of Preferred Stock-Sixth Series were issued or outstanding at year-end 2004 or 2003.

## **13. Stock-based Compensation**

Effective January 1, 2003, Sprint adopted SFAS No. 123 as amended by SFAS No. 148 using the prospective method. Upon adoption Sprint began expensing the fair value of stock-based compensation for all grants, modifications or settlements made on or after January 1, 2003.

As a result of the recombination of the tracking stocks (see Note 2), outstanding options to purchase PCS common stock were converted into options to purchase FON common stock by multiplying the number of PCS shares under option by the 0.5 conversion ratio and rounding up to the nearest whole share, and by dividing the exercise price of the PCS option by the 0.5 conversion ratio. Unless otherwise stated, the number of shares under option and the related exercise prices reflected in the following discussion have been adjusted to reflect the recombination of the tracking stocks as if the recombination had occurred as of the earliest period presented.



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As required by SFAS No. 123, Sprint accounted for the conversion of PCS stock options to FON stock options as a modification, and accordingly applied stock option expensing to FON stock options resulting from the conversion of PCS stock options granted before January 1, 2003.

#### ***Management Incentive Stock Option Plan***

Under the Management Incentive Stock Option Plan (MISOP), before 2003 Sprint granted stock options to employees eligible to receive annual incentive compensation. Eligible employees could elect to receive stock options in lieu of a portion of their target incentive under Sprint's annual incentive compensation plans. The options generally became exercisable on December 31 of the year granted and have a maximum term of 10 years. Under the MISOP, Sprint also granted stock options to executives in lieu of long-term incentive compensation (LTIP-MISOP options). The LTIP-MISOP options generally became exercisable on the third December 31 following the grant date and have a maximum term of 10 years. MISOP options were granted with exercise prices equal to the market price of the underlying common stock on the grant date. At year-end 2004, this plan authorized options to buy approximately 66.5 million common shares, and 20.9 million common shares remained available. In December 2003, the board of directors passed a resolution capping the shares authorized under the MISOP plan at its then current level. No additional shares were authorized under the amended terms of the plan in 2004 or 2005 and no new options may be granted under this plan after April 2005.

#### ***Long-Term Stock Incentive Program***

Under the 1997 Long-Term Stock Incentive Program (1997 Program), Sprint can grant stock options, restricted stock and restricted stock units and other equity based awards to directors and employees. The board of directors adopted the Stock Option Plan (SOP) and the Restricted Stock Plan pursuant to the 1997 Program and a predecessor plan, and until 2004, awards of stock options were generally made out of the SOP and awards of restricted stock were made out of the Restricted Stock Plan. Certain awards were made directly out of the 1997 Program. In February 2004, the board of directors combined the SOP and the Restricted Stock Plan with and into the 1997 Program and since then all stock options, restricted stock, restricted stock units and other equity awards have been made directly out of the 1997 Program. In the 1997 Program the number of shares available for grant increase each year until 2007. No awards may be granted under the plan after April 2007. At year-end 2004, this plan authorized equity-based awards for approximately 133.2 million common shares, and 45.4 million shares remained available. On January 1, 2005, the number of shares authorized by the 1997 Program increased by approximately 22.1 million shares.

Employees and directors who are granted restricted stock units are not required to pay for the shares but must remain employed with Sprint or a member of its board of directors until the restrictions on the shares lapse. The restricted stock units granted in 2004 to officers generally vest one-fourth on the second anniversary of the grant date and three-fourths on the third anniversary of the grant date, while the restricted stock units granted in 2004 to directors vest after three years.

Stock options granted to directors and employees under the 1997 Program generally become exercisable at the rate of 25% per year, beginning one year from the grant date, and have a maximum term of 10 years. The 2004 options were granted with exercise prices equal to the market price of the underlying common stock on the grant date. No options were granted to directors in 2004.

In the first quarter of 2003, Sprint entered into an employment contract with Gary Forsee to serve as Sprint's Chief Executive Officer and Chairman of the Board. Under the employment contract, Sprint granted stock options and restricted stock units to Mr. Forsee which vest subject to his continued employment with Sprint.

In early 2001, Sprint entered into new employment contracts with Mr. Esrey and Mr. LeMay. In the second quarter of 2003 these contracts were terminated in connection with separation agreements agreed to by Sprint and Mr. Esrey and Mr. LeMay. These separation agreements included option modifications which accelerated vesting and extended exercise periods of stock options granted in prior years.

Under Sprint's Restricted Stock Plan, Sprint granted restricted stock to officers and key employees. Employees granted restricted stock are not required to pay for the shares but must remain employed with Sprint until the restrictions on the shares lapse. The restricted stock generally vests at a rate of 33.3% per year on each of the first three anniversaries of the grant date. No restricted stock was granted in 2004.

#### ***Employees Stock Purchase Plan***

Under Sprint's ESPP, employees may elect to purchase common stock at a price equal to 85% of the market value on the grant or exercise date, whichever is less. At year-end 2004, this plan authorized for purchase

approximately 29.8 million shares. Elections have been made by employees participating in the 2004 offering under the ESPP to purchase, in 2005, approximately 3.6 million common shares. In 2003, an amendment to Sprint's ESPP established an annual purchase date at the end of each yearly offering period in lieu of quarterly purchases.

#### **Fair Value Disclosures**

The following tables reflect the weighted average fair value per option granted, as well as the significant weighted average assumptions used in determining those fair values using the Black-Scholes pricing model. The following information related to PCS common stock has not been adjusted to reflect the recombination of the tracking stocks as if the recombination had occurred as of the earliest period presented.

##### *FON Common Stock*

	2004	2003	2002
<b>SOP</b>			
Fair value on grant date	\$6.43	\$3.58	\$3.47
Risk-free interest rate	3.13%	2.93%	4.3%
Expected volatility	45.1%	45.0%	35.2%
Expected dividend yield	2.78%	4.23%	3.9%
Expected life (years)	6	6	6
Options granted (millions)	5.1	10.5	12.9
<b>MISOP</b>			
Fair value on grant date			\$4.05
Risk-free interest rate			4.3%
Expected volatility			35.2%
Expected dividend yield			3.5%
Expected life (years)			6
Options granted (millions)			11.3

##### *PCS Common Stock*

	2004	2003	2002
<b>SOP</b>			
Fair value on grant date	\$6.56	\$3.16	\$5.99
Risk-free interest rate	3.13%	2.93%	4.3%
Expected volatility	83.3%	87.2%	72.9%
Expected dividend yield	—	—	—
Expected life (years)	6	6	6
Options granted (millions)	5.1	10.5	13.8
<b>MISOP</b>			
Fair value on grant date			\$8.25
Risk-free interest rate			4.3%
Expected volatility			71.5%
Expected dividend yield			—
Expected life (years)			6
Options granted (millions)			9.0

#### **Employees Stock Purchase Plan**

During the 2004 ESPP offering, employees elected to purchase approximately 3.6 million common shares. Using the Black-Scholes pricing model, the weighted average fair value was \$3.19 per share.

During the 2003 ESPP offering, employees elected to purchase approximately 1.8 million FON and 7.2 million PCS shares. Using the Black-Scholes pricing model, the weighted average fair value was \$4.11 per share for each FON election and \$2.52 per share for each PCS election. Because of the recombination of the tracking stocks, the elections to purchase PCS shares were converted into elections to purchase FON shares.

During the 2002 ESPP offering, employees purchased approximately 4.2 million FON and 8.7 million PCS shares. Using the Black-Scholes pricing model, the weighted average fair value was \$1.89 per share for each FON election and \$1.45 per share for each PCS election.

## Stock Options

Activity under the 1997 Program and MISOP was as follows:

	Shares Under Option (in millions)	Weighted Average per Share Exercise Price
Outstanding, year-end 2001	108.3	\$ 31.95
Granted	35.6	16.14
Exercised	(0.4)	11.72
Forfeited/Expired	(8.3)	28.76
Outstanding year-end 2002	135.2	28.04
Granted	15.8	10.73
Exercised	(1.2)	12.38
Forfeited/Expired	(9.2)	27.84
Outstanding year-end 2003	140.6	26.25
Granted	7.7	18.08
Exercised	(10.9)	14.43
Forfeited/Expired	(10.0)	31.39
Outstanding year-end 2004	127.4	\$ 26.35

The following tables summarize outstanding and exercisable shares under option at year-end 2004:

Shares Under Option Outstanding			
Range of Exercise Prices	Number Outstanding (millions)	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price
\$4.00 -- \$9.99	6.2	6.01	\$ 8.59
10.00 -- 19.99	40.6	6.65	14.94
20.00 -- 29.99	45.5	4.83	23.13
30.00 -- 39.99	16.1	3.69	36.87
40.00 -- 49.99	12.3	5.02	48.42
50.00 -- 59.99	2.7	4.32	51.90
60.00 -- 79.99	2.9	3.56	65.92
80.00 -- 99.99	0.1	2.59	93.05
100.00 -- 119.99	0.9	3.92	106.03
120.00 -- 139.99	0.1	3.02	126.07

Shares Under Option Exercisable		
Range of Exercise Prices	Number Exercisable (millions)	Weighted Average Exercise Price
\$4.00 -- \$9.99	2.7	\$ 8.59
10.00 -- 19.99	20.8	14.97
20.00 -- 29.99	43.6	23.17
30.00 -- 39.99	16.0	36.87
40.00 -- 49.99	11.6	48.37
50.00 -- 59.99	2.7	51.88
60.00 -- 79.99	2.9	65.92
80.00 -- 99.99	0.1	93.05
100.00 -- 119.99	0.9	106.02
120.00 -- 139.99	0.1	126.07

The number of shares exercisable and their weighted average prices were 101.4 million shares at \$29.04 in 2004, 103.3 million shares at \$29.36 in 2003, and 94.5 million shares at \$29.55 in 2002.

## 14. Employee Benefit Plans

### Defined Benefit Pension Plan

Most Sprint employees are covered by a noncontributory defined benefit pension plan. Benefits for plan participants belonging to unions are based on negotiated schedules. For non-union participants, pension benefits are based on years of service and the participants' compensation.

Sprint uses a December 31 measurement date for its defined benefit pension plan.

The following table shows the changes in the projected benefit obligation:

	2004	2003
	(millions)	
Beginning balance	\$4,038	\$3,536
Service cost	133	119
Interest cost	250	234
Amendments	12	16
Actuarial loss	223	313
Benefits paid	(190)	(180)
Ending balance	\$4,466	\$4,038

The plan's accumulated benefit obligation was \$4,129 million at December 31, 2004 and \$3,730 million at December 31, 2003.

The following table shows the changes in plan assets:

	2004	2003
	(millions)	
Beginning balance	\$3,176	\$2,448
Employer contributions	300	400
Investment return	392	508
Benefits paid	(190)	(180)
Ending balance	\$3,678	\$3,176

At year-end, the funded status and amounts recognized on the Consolidated Balance Sheets for the plan were as follows:

	2004	2003
	(millions)	
Projected benefit obligation in excess of plan assets	\$ (788)	\$ (862)
Unrecognized net losses	1,551	1,507
Unrecognized prior service cost	92	95
Unamortized transition asset	(2)	(4)
Net amount recognized	\$ 853	\$ 736

Amounts recognized on the Consolidated Balance Sheets consist of:

	2004	2003
	(millions)	
Pension benefit obligations	\$ (451)	\$ (553)
Intangible asset	92	95
Accumulated other comprehensive loss	1,212	1,194
Net amount recognized	\$ 853	\$ 736

In accordance with SFAS No. 87, *Employers' Accounting for Pensions*, at year-end 2004 and 2003 Sprint recorded an additional minimum pension liability representing the excess of the unfunded accumulated benefit obligation over plan assets and accrued pension costs. Recognition of the additional pension liability also resulted in an

intangible asset equal to the unrecognized prior service costs and a charge to equity through Other comprehensive income (loss). The following table sets forth these amounts for the year-ended 2004, 2003 and 2002:

	2004	2003	2002
		(millions)	
Additional minimum liability	\$1,304	\$1,289	\$1,252
Intangible asset	92	95	95
Accumulated other comprehensive loss	1,212	1,194	1,157

The tax effect for the charge to "Accumulated other comprehensive income (loss)" was \$10 million for 2004, \$12 million for 2003 and \$444 million for 2002.

This resulted in a net charge to "Accumulated other comprehensive income (loss)" of \$8 million for the year-ended 2004, \$25 million for the year-ended 2003, and \$713 million for the year-ended 2002.

Sprint also maintains a nonqualified defined benefit plan to provide supplemental retirement benefits for certain executives in addition to the benefits provided under the qualified pension plan.

For the year-ended 2004, an additional minimum pension liability of \$20 million was recognized for the nonqualified defined benefit plan with a charge to "Accumulated other comprehensive income (loss)" of \$13 million, net of taxes.

The net pension expense (credit) consisted of the following:

	2004	2003	2002
		(millions)	
Service cost—benefits earned during the year	\$ 133	\$ 119	\$ 103
Interest on projected benefit obligation	250	234	221
Expected return on plan assets	(303)	(290)	(331)
Amortization of unrecognized transition asset	(2)	(3)	(17)
Recognition of prior service cost	16	15	14
Recognition of actuarial (gains) and losses	89	33	(2)
Special early retirement benefits associated with restructuring	—	—	10
Net pension expense (credit)	\$ 183	\$ 108	\$ (2)

Weighted-average assumptions used to determine net periodic pension costs:

	2004	2003	2002
Discount rate	6.25%	6.75%	7.50%
Expected long-term rate of return on plan assets	8.75%	9.00%	9.50%
Expected blended rate of future pay raises	4.25%	4.25%	4.25%

Weighted average assumptions used to determine benefit obligations as of December 31:

	2004	2003
Discount rate	6.00%	6.25%
Expected long-term rate of return on plan assets	8.75%	8.75%
Expected blended rate of future pay raises	4.25%	4.25%

During 2004, the assumption regarding the expected long-term return on plan assets was 8.75%. After revising the target asset allocation policy in the second half of 2003 to reduce the pension trust's exposure to equities, Sprint obtained from two investment consulting firms forward-looking estimates of the expected long-term returns for a portfolio invested according to the revised target policy. The average of the two firms' estimates was 8.77%, guiding a reduction in the assumed long-term return from the prior year's 9.0% to 8.75%.

The plan's asset allocations at December 31, 2004 and 2003, by asset category, are as follows:

	2004	2003
Equity securities	66%	58%
Debt securities	17%	28%
Real estate	9%	5%
Alternatives	8%	9%
Total	100%	100%

The pension trust is invested in a well-diversified portfolio of securities. The Employee Benefits Committee has established an investment policy that specifies asset allocation targets and ranges for the trust of: Equities 65% (+/-10%), Debt 15% (+/-5%), Real Estate 10% (+/-5%), and Alternatives 10% (+/-5%). A revision to the investment policy in 2003 increased the allocation to Real Estate and introduced a new category defined as Alternatives. The Alternatives asset category is a diversified portfolio of investments, consisting of both equity and fixed-income instruments. A contribution of \$400 million was temporarily invested in debt securities while suitable Real Estate and Alternatives investments were identified. This funding of Real Estate and Alternatives categories was completed in 2004. The pension trust holds no Sprint securities.

For the year-ended 2004, Sprint contributed \$300 million to its pension plan in January 2004. Sprint contributed \$300 million to its pension plan in January 2005. This is the only contribution expected to be made during 2005.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

	Pension Benefits (millions)
2005	\$ 177
2006	180
2007	185
2008	191
2009	199
2010 - 2014	1,150

#### Defined Contribution Plans

Sprint sponsors defined contribution savings plans covering most employees. Participants may contribute portions of their pay to the plans. For union employees, Sprint matches contributions based on negotiated amounts. Sprint matches contributions of non-union employees in FON stock. The matching contribution was equal to 25% of participants' contributions up to 6% of their pay for 2004 and the second half of 2003. The matching contribution for the first half of 2003 was 75%. In 2002, the matching contribution was equal to 50% of participants' contributions up to 6% of their pay. In addition, Sprint may, at the discretion of the Employee Benefits Committee, provide additional matching contributions based on the performance of FON stock compared to the Dow Jones Total Market Telecom Index. Sprint's total matching contributions were \$29 million in 2004, \$72 million in 2003, and \$84 million in 2002.

#### Postretirement Benefits

Sprint provides postretirement medical benefits to most employees. Sprint also provides postretirement life insurance to employees who retired before certain dates. Employees who retired before certain dates were eligible for medical benefits at no cost, or at a reduced cost. Employees who retire after certain dates are eligible for medical benefits on a shared-cost basis. Sprint funds the accrued costs as benefits are paid. Sprint uses a December 31 measurement date for its postretirement benefit plans.

In the 2004 first quarter, Sprint amended certain retiree medical plans to standardize the plan design effective January 1, 2005, eliminating differences in benefit levels. These amendments decreased the accumulated postretirement benefit obligation (APBO) related to other postretirement benefits by approximately \$35 million, and decreased the 2004 net benefit expense by \$5 million.

As a result of these amendments, Sprint also recognized the effects of the 2003 Medicare Prescription Drug, Improvement and Modernization Act (the Act). The Act contains a subsidy to employers who provide prescription drug coverage to retirees that is actuarially equivalent to Medicare Part D. Analysis of Sprint's retiree prescription drug claims data determined that Sprint's retiree prescription drug benefit was actuarially equivalent. In estimating

the effects of the Act, estimates of participation rates and per capita claims costs were not changed. The effect of recognizing the federal subsidy related to the Act in the 2004 first quarter was a \$67 million reduction in the APBO, and an \$11 million reduction in the 2004 net benefit cost. Sprint has accounted for its retiree medical benefit plan in accordance with Financial Accounting Standards Board Staff Position No. 106-2.

The following table shows the changes in the accumulated postretirement benefit obligation:

	2004	2003
	(millions)	
Beginning balance	\$1,116	\$1,077
Service cost	13	14
Interest cost	56	62
Plan amendments	(35)	—
Actuarial (gains) / losses	(125)	37
Benefits paid	(58)	(74)
Ending balance	\$ 967	\$1,116

Amounts included on the Consolidated Balance Sheets at year-end were as follows:

	2004	2003
	(millions)	
Accumulated postretirement benefit obligation	\$ 967	\$ 1,116
Plan assets	(43)	(40)
Unrecognized transition obligation	8	9
Unrecognized prior service benefit	204	217
Unrecognized net loss	(264)	(416)
Accrued postretirement benefits cost	\$ 872	\$ 886
Discount rate	6.0%	6.25%

The net postretirement benefits cost consisted of the following:

	2004	2003	2002
	(millions)		
Service cost—benefits earned during the year	\$ 13	\$ 14	\$ 16
Interest on accumulated postretirement benefit obligation	56	62	62
Expected return on assets	(3)	(3)	(3)
Recognition of transition obligation	(1)	(1)	(1)
Recognition of prior service cost	(49)	(45)	(58)
Recognition of actuarial losses (gains)	28	27	14
Net periodic postretirement benefits cost	\$ 44	\$ 54	\$ 30

Weighted-average assumptions used to determine net periodic postretirement benefit costs:

	2004	2003	2002
Discount rate	6.25%	6.75%	7.50%
Assumed return on assets	8.75%	9.00%	9.50%

Assumed health care cost trend rates at December 31:

	2004	2003
Health care cost increases assumed for next year	10.0%	10.0%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	5.0%	5.0%
Year that the rate reaches the ultimate trend rate	2012	2011

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	One-percentage-point Increase	One-percentage-point Decrease
Effect on total of service and interest cost	\$ 5	\$ (4)
Effect on postretirement benefit obligation	\$ 84	\$ (72)





Plan assets totaled \$43 million and \$40 million at December 31, 2004 and 2003, respectively. Sprint targets a 60% allocation to Equities and a 40% allocation to Debt. The plans hold no Sprint securities.

Sprint plans to contribute to the postretirement benefit plan an amount equal to the value of benefits and premiums paid.

The expected benefit payments, which reflect expected future service, as appropriate, and expected subsidy receipts are as follows:

	Payments	Subsidy Receipts
	(millions)	
2005	\$ 77	—
2006	78	4
2007	80	4
2008	84	5
2009	86	5
2010–2014	455	30

## 15. Income Taxes

Income tax expense (benefit) allocated to continuing operations consists of the following:

	2004	2003	2002
	(millions)		
Current income tax expense (benefit)			
Federal	\$ 15	\$(672)	\$(599)
State	(30)	21	(3)
Total current	(15)	(651)	(602)
Deferred income tax expense (benefit)			
Federal	(562)	494	533
State	(14)	(55)	11
Total deferred	(576)	439	544
Foreign income tax expense	—	—	8
Total	\$(591)	\$(212)	\$ (50)

The differences that caused Sprint's effective income tax rates to vary from the 35% federal statutory rate for income taxes related to continuing operations were as follows:

	2004	2003	2002
	(millions)		
Income tax expense (benefit) at the federal statutory rate	\$ (562)	\$(176)	\$ 140
Effect of:			
State income taxes, net of federal income tax effect	(28)	(23)	5
Credit for research activities	(2)	(27)	—
Equity in losses of foreign joint ventures	1	—	(55)
Decrease in valuation allowance for previous investment write downs	—	—	(130)
Other, net	—	14	(10)
Income tax benefit	\$ (591)	\$(212)	\$ (50)
Effective income tax rate	36.9%	42.1%	(12.5)%

Income tax expense (benefit) allocated to other items was as follows:

	2004	2003	2002
	(millions)		
Discontinued operations	\$ —	\$ 820	\$ 97
Cumulative effect of change in accounting principle	—	(162)	—
Additional minimum pension liability <sup>(1)</sup>	(17)	(12)	(444)
Gains (losses) on securities <sup>(1)</sup>	6	27	(18)
Gains (losses) on qualifying cash flow hedges <sup>(1)</sup>	(3)	(23)	9
Stock ownership, purchase and option arrangements <sup>(2)</sup>	(25)	(4)	(1)

<sup>(1)</sup> These amounts have been recorded directly to "Shareholders' equity—Accumulated other comprehensive income (loss)" on the Consolidated Balance Sheets.

(2) These amounts have been recorded directly to "Shareholders' equity— Capital in excess of par or stated value" on the Consolidated Balance Sheets.

Sprint recognizes deferred income taxes for the temporary differences between the carrying amounts of its assets and liabilities for financial statement purposes and their tax bases. The sources of the differences that give rise to the deferred income tax assets and liabilities at year-end 2004 and 2003, along with the income tax effect of each, were as follows:

	2004 Deferred Income Tax		2003 Deferred Income Tax	
	Assets	Liabilities	Assets	Liabilities
	(millions)			
Property, plant and equipment	\$ —	\$ 3,735	\$ —	\$ 4,663
Intangibles	—	649	—	571
Postretirement and other benefits	842	—	834	—
Reserves and allowances	210	—	202	—
Operating loss carryforwards	2,319	—	2,583	—
Tax credit carryforwards	397	—	398	—
Other, net	159	—	138	—
	3,927	4,384	4,155	5,234
Less valuation allowance	670	—	620	—
Total	\$3,257	\$ 4,384	\$3,535	\$ 5,234

The foreign loss included in income (loss) from continuing operations totaled \$203 million, \$141 million, and \$273 million in 2004, 2003, and 2002, respectively. Sprint has no material unremitted earnings of foreign subsidiaries.

In 1999, Sprint acquired approximately \$193 million of potential tax benefits related to net operating loss carryforwards in the acquisitions of the broadband fixed wireless companies. In 1998, Sprint acquired approximately \$229 million of potential tax benefits related to net operating loss carryforwards in the controlling interest acquisition of Wireless which we call the PCS Restructuring. The benefits from these acquisitions are subject to certain realization restrictions under various tax laws. A valuation allowance was provided for the total of these deferred tax benefits. If these benefits are subsequently recognized, they will first reduce goodwill or intangibles resulting from the application of the purchase method of accounting for these transactions. If goodwill and intangibles related to the acquisition are reduced to zero, any additional tax benefits recognized would reduce tax expense.

In connection with the PCS Restructuring, Sprint is required to reimburse the former cable company partners of PCS for net operating loss and tax credit carryforward benefits generated before the PCS Restructuring if realization by Sprint produces a cash benefit that would not otherwise have been realized. The reimbursement will equal 60% of the net cash benefit received by Sprint and will be made to the former cable company partners of PCS in shares of Sprint stock. The unexpired carryforward benefits subject to this requirement total \$214 million.

At year-end 2004, Sprint had federal operating loss carryforwards of approximately \$5.1 billion and state operating loss carryforwards of approximately \$11.9 billion. Related to these loss carryforwards are federal tax benefits of \$1.8 billion and state tax benefits of \$822 million. In addition, Sprint had available, for income tax purposes, federal alternative minimum tax net operating loss carryforwards of \$4.9 billion and state alternative minimum tax net operating loss carryforwards of \$1.3 billion. The loss carryforwards expire in varying amounts through 2024.

Sprint also had available \$397 million of federal and state income tax credit carryforwards at year-end 2004. Included in this amount are \$291 million of income tax credits which expire in varying amounts through 2024. The remaining \$106 million do not expire.

The valuation allowance related to deferred income tax assets increased \$50 million in 2004 and increased \$47 million in 2003.

Management believes it is more likely than not that these deferred income tax assets, net of the valuation allowance, will be realized based on current income tax laws and expectations of future taxable income stemming from the reversal of existing deferred tax liabilities or ordinary operations. Uncertainties surrounding income tax law changes, shifts in operations between state taxing jurisdictions and future operating income levels may, however, affect the ultimate realization of all or some of these deferred income tax assets. When we evaluated these and other qualitative factors and uncertainties concerning our industry, we found they provide continuing evidence requiring the valuation allowance we currently recognize regarding the ultimate realizability of the tax benefit of our net operating loss and tax credit carryforwards as of December 31, 2004.

In 2002, Sprint reached a definitive agreement to sell its directory publishing business to R.H. Donnelley. Due to the anticipated gain on the sale, Sprint recognized \$292 million of tax benefits in the third quarter of 2002 on previously recorded investment losses.

## 16. Discontinued Operations

In the 2002 third quarter, Sprint reached a definitive agreement to sell its directory publishing business to R.H. Donnelley for \$2.23 billion in cash. The sale closed on January 3, 2003. The pretax gain recognized in 2003 was \$2.14 billion, \$1.32 billion after tax. In accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, Sprint has presented the results of operations of the directory publishing business as a discontinued operation in the consolidated financial statements. Summary financial information is as follows:

	2003	2002
	(millions)	
Net operating revenues	\$5	\$546
Income before income taxes	\$5	\$255

## 17. Commitments and Contingencies

### *Litigation, Claims and Assessments*

In March 2004, eight purported class action lawsuits relating to the recombination of the tracking stocks were filed against Sprint and its directors by holders of PCS common stock. Seven of the lawsuits were consolidated in the District Court of Johnson County, Kansas. The eighth, pending in New York, has been voluntarily stayed. The consolidated lawsuit alleges breach of fiduciary duty in connection with allocations between the FON Group and the PCS Group before the recombination of the tracking stocks and breach of fiduciary duty in the recombination. The lawsuit seeks to rescind the recombination and monetary damages. In February 2005, the court denied defendants' motion to dismiss the complaint. All defendants have denied plaintiffs' allegations and intend to vigorously defend this matter.

A number of putative class action cases that allege Sprint failed to obtain easements from property owners during the installation of its fiber optic network in the 1980's have been filed in various courts. Several of these cases sought certification of nationwide classes, and in one case, a nationwide class was certified. In 2002, a nationwide settlement of these claims was approved by the U.S. District Court for the Northern District of Illinois, but objectors appealed the preliminary approval order to the Seventh Circuit Court of Appeals. In October, 2004, the Seventh Circuit Court of Appeals overturned the settlement approval and remanded the case to the trial court for further proceedings. The settling parties have filed a petition for certiorari to the U.S. Supreme Court. In 2001, Sprint accrued for the estimated settlement costs of these suits.

In 2003, participants in the Sprint Retirement Savings Plan, the Sprint Retirement Savings Plan for Bargaining Unit Employees and the Centel Retirement Savings Plan for Bargaining Unit Employees filed suit in the U.S. District Court for the District of Kansas against Sprint, the committees that administer the plans, the plan trustee, and various current and former directors and officers. The consolidated lawsuit alleges that defendants breached their fiduciary duties to the plans and violated the ERISA statutes by making the company contribution in FON common stock and PCS common stock and including FON common stock and PCS common stock among the more than thirty investment options offered to plan participants. The lawsuit seeks to recover any decline in the value of FON common stock and PCS common stock during the class period. All defendants have denied plaintiffs' allegations and intend to vigorously defend this matter.

In September 2004, the U.S. District Court for the District of Kansas denied a motion to dismiss a shareholder lawsuit alleging that Sprint's 2001 and 2002 proxy statements were false and misleading in violation of federal securities laws to the extent they described new employment agreements with senior executives without disclosing that, according to the allegations, replacement of those executives was inevitable. These allegations, made in an amended complaint in a lawsuit originally filed in 2003, are asserted against Sprint and certain current and former officers and directors. The lawsuit seeks to recover any decline in the value of FON common stock and PCS common stock during the class period. Following denial of the dismissal motion, the parties stipulated that the case can proceed as a class action. All defendants have denied plaintiffs' allegations and intend to vigorously defend this matter. The allegations in the original complaint, which asserted claims against Sprint, certain current and former officers and directors, and Sprint's former independent auditor, were dismissed by the court in April 2004.

Various other suits, proceedings and claims, including purported class actions, typical for a business enterprise, are pending against Sprint.

While it is not possible to determine the ultimate disposition of each of these proceedings and whether they will be resolved consistent with Sprint's beliefs, Sprint expects that the outcome of such proceedings, individually or in the aggregate, will not have a material adverse effect on the financial condition or results of operations of Sprint or its business segments.

#### **Commitments**

Sprint has minimum purchase commitments with various vendors through 2009. Outstanding commitments at year-end 2004 were approximately \$1.4 billion and \$3.0 billion at year-end 2003. The outstanding commitments consist primarily of network equipment and maintenance, access commitments, advertising and marketing, information technology services and customer support provided by third parties, handset purchases and other expenses related to normal business operations. Approximately 85% of the purchase commitments outstanding at year-end 2004 will be incurred within the next twelve months.

#### **Operating Leases**

At year-end 2004, Sprint's rental commitments for operating leases, consisting mainly of leases for cell and switch sites, real estate, data processing equipment, and office space are as follows:

	(millions)
2005	\$ 808
2006	722
2007	645
2008	596
2009	573
Thereafter	7,827

The table includes Sprint's expected optional renewal periods related to certain cell site, switch site and real estate leases. These leases, which are subject to escalation clauses, generally have initial five-year terms with renewal options for additional five-year terms totaling 20 to 25 years. Sprint's gross rental expense totaled \$1.1 billion in 2004, \$1.2 billion in 2003, and \$1.3 billion in 2002. Rental expense includes lease expense calculated using the straight-line method including renewal option periods that are reasonably assured. Rental commitments for subleases, contingent rentals and executory costs were not significant.

Leasehold improvements are depreciated over the lesser of the estimated useful life of the asset or the lease term, including renewal option periods that are reasonably assured.

### **18. Additional Financial Information**

#### **Segment Information**

Sprint is divided into three segments: Wireless, Local, and Long distance. Other consists primarily of wholesale distribution of telecommunications products.

Sprint manages its segments to the Operating income (loss) level of reporting. Items below Operating income (loss) are held at a corporate level only.

Sprint generally accounts for transactions between segments based on fully distributed costs, which Sprint believes approximate fair value. In certain transactions, pricing is set using market rates.

Segment financial information was as follows:

	Wireless	Local	Long Distance	Other	Corporate and Eliminations <sup>(1)</sup>	Consolidated
	(millions)					
<b>2004</b>						
Net operating revenues	\$14,647	\$6,021	\$ 7,327	\$ 850	\$ (1,417)	\$ 27,428
Affiliated revenues	10	220	678	509	(1,417)	—
Depreciation and amortization	2,563	1,084	1,071	22	(20)	4,720
Restructuring and asset impairments <sup>(2)</sup>	30	40	3,661	—	—	3,731
Operating expenses	13,095	4,255	10,916	871	(1,406)	27,731
Operating income (loss)	1,552	1,766	(3,589)	(21)	(11)	(303)
Operating margin	10.6%	29.3%	NM	NM	NM	NM
Capital expenditures	2,559	1,042	282	2	95	3,980
Total assets	21,417	8,936	3,695	278	6,995	41,321
<b>2003</b>						
Net operating revenues	\$12,690	\$6,130	\$ 8,005	\$ 840	\$ (1,468)	\$ 26,197
Affiliated revenues	9	216	693	550	(1,468)	—
Depreciation and amortization	2,454	1,081	1,432	23	(17)	4,973
Restructuring and asset impairments <sup>(2)</sup>	362	24	1,564	1	—	1,951
Operating expenses	12,056	4,268	9,447	871	(1,452)	25,190
Operating income (loss)	634	1,862	(1,442)	(31)	(16)	1,007
Operating margin	5.0%	30.4%	NM	NM	NM	3.8%
Capital expenditures	2,123	1,226	339	1	108	3,797
Total assets	21,671	8,954	8,233	324	3,493	42,675
<b>2002</b>						
Net operating revenues	\$12,074	\$6,244	\$ 8,956	\$ 863	\$ (1,458)	\$ 26,679
Affiliated revenues	(46)	285	660	559	(1,458)	—
Depreciation and amortization	2,245	1,153	1,483	24	(15)	4,890
Restructuring and asset impairments <sup>(2)</sup>	138	56	194	1	—	389
Operating expenses	11,547	4,429	9,163	887	(1,443)	24,583
Operating income (loss)	527	1,815	(207)	(24)	(15)	2,096
Operating margin	4.4%	29.1%	NM	NM	NM	7.9%
Capital expenditures	2,640	1,283	736	8	154	4,821
Total assets	22,842	8,482	10,855	733	2,201	45,113

NM = Not meaningful

<sup>(1)</sup> Revenues eliminated in consolidation consist primarily of local access charged to Long distance by Local, equipment purchases from the product distribution business, inter-exchange services provided to Local, long distance services provided to Wireless for resale to Wireless customers and for internal business use, caller ID services provided by Local to Wireless, handset purchases from Wireless and access to the Wireless network.

Corporate assets are not allocated to the operating segments, and consist primarily of cash and equivalents, the corporate campus and other assets managed at a corporate level. Corporate capital expenditures were incurred mainly for various administrative assets and improvements at Sprint's corporate campus. Operating expenses related to corporate assets are allocated to each segment.

<sup>(2)</sup> See Note 7 of Notes to Consolidated Financial Statements for additional information.

In 2004, 2003 and 2002, more than 94% of Sprint's revenues were from services and equipment provided within the United States.

More than 99% of Sprint's property, plant, and equipment is in the United States.

Net operating revenues by services and products were as follows:

	Wireless	Local	Long Distance	Other	Eliminations <sup>(1),(2)</sup>	Consolidated
	(millions)					
<b>2004</b>						
Wireless services	\$ 14,647	\$ —	\$ —	\$ —	\$ (10)	\$ 14,637
Voice	—	4,498	4,560	—	(785)	8,273
Data	—	833	1,722	—	(71)	2,484
Internet	—	—	793	—	(12)	781
Other	—	690	252	850	(539)	1,253
<b>Total net operating revenues</b>	<b>\$ 14,647</b>	<b>\$ 6,021</b>	<b>\$ 7,327</b>	<b>\$ 850</b>	<b>\$ (1,417)</b>	<b>\$ 27,428</b>
<b>2003</b>						
Wireless services	\$ 12,690	\$ —	\$ —	\$ —	\$ (9)	\$ 12,681
Voice	—	4,654	4,999	—	(771)	8,882
Data	—	730	1,853	—	(81)	2,502
Internet	—	—	973	—	(29)	944
Other	—	746	180	840	(578)	1,188
<b>Total net operating revenues</b>	<b>\$ 12,690</b>	<b>\$ 6,130</b>	<b>\$ 8,005</b>	<b>\$ 840</b>	<b>\$ (1,468)</b>	<b>\$ 26,197</b>
<b>2002</b>						
Wireless services	\$ 12,074	\$ —	\$ —	\$ —	\$ 46	\$ 12,120
Voice	—	4,804	5,774	—	(919)	9,659
Data	—	639	1,854	—	—	2,493
Internet	—	—	1,009	—	—	1,009
Other	—	801	319	863	(585)	1,398
<b>Total net operating revenues</b>	<b>\$ 12,074</b>	<b>\$ 6,244</b>	<b>\$ 8,956</b>	<b>\$ 863</b>	<b>\$ (1,458)</b>	<b>\$ 26,679</b>

(1) Revenues eliminated in consolidation consist primarily of local access charged to Long distance by Local, equipment purchases from the product distribution business, inter-exchange services provided to Local, long distance services provided to Wireless for resale to Wireless customers and for internal business use, caller ID services provided by Local to Wireless, handset purchases from the Wireless and access to the Wireless network.

(2) Prior to 2003, elimination information for Long distance was not tracked at a specific products and services level. All eliminations were considered voice revenues.

### Supplemental Cash Flows Information

Sprint's cash paid (received) for interest and income taxes was as follows:

	2004	2003	2002
	(millions)		
Interest (net of capitalized interest)	\$ 1,279	\$ 1,424	\$ 1,326
Income taxes	\$ (39)	\$ 83	\$ (446)

Sprint's noncash activities included the following:

	2004	2003	2002
	(millions)		
Common stock issued:			
Sprint's employee benefit stock plans	\$ 53	\$ 51	\$ 84
Settlement of shareholder suit	\$ 5	\$ —	\$ —
Extinguishment of debt	\$ 48	\$ —	\$ 3
Contribution to equity investment	\$ —	\$ —	\$ 33

### 19. Recently Issued Accounting Pronouncements

In March 2004, the Emerging Issues Task Force (EITF) of the Financial Accounting Standards Board (FASB) reached a consensus on EITF No. 03-6, *Participating Securities and the Two-Class Method under SFAS No. 128*,

**Earnings Per Share (EITF No. 03-6).** This guidance requires that the rights of securities to participate in the earnings of an enterprise must be reflected in the reporting of earnings per share. Sprint's equity unit purchase contracts met the "participating security" qualifications outlined in the guidance, because the purchase contracts included a provision permitting the equity unit holders to benefit from or "participate" in any dividends declared on the common stock during the contract period.

Sprint adopted EITF No. 03-6 in the 2004 second quarter. Prior to April 23, 2004, the equity unit forward purchase contracts were tied only to the PCS common stock which had no earnings upon which to declare dividends. Upon recombination and until settlement in August 2004, the equity unit purchase contracts participated in the earnings of FON common stock. The proportionate share of earnings attributable to these securities was \$9 million in the year-to-date period. This attribution was reflected as "Earnings allocated to participating securities" on the face of the Consolidated Statements of Operations. Sprint has no outstanding participating securities at December 31, 2004.

In December 2004, the FASB issued SFAS No. 123R, *Share-Based Payment*. This statement requires an entity to recognize the cost of employee services received in share-based payment transactions, through the use of fair-value-based methods of recognizing cost. This statement is effective for Sprint as of July 1, 2005.

Sprint voluntarily adopted fair value accounting for share-based payments effective January 1, 2003, under SFAS No. 123 as amended by SFAS No. 148, using the prospective method. Upon adoption Sprint began expensing the fair value of stock-based compensation for all grants, modifications or settlements made on or after January 1, 2003. Further, in connection with the tracking stock recombination, as required by SFAS No. 123, Sprint accounted for the conversion of PCS stock options to FON stock options as a modification, and accordingly applied stock option expensing to FON stock options resulting from the conversion of PCS stock options granted before January 1, 2003.

The revised standard will require Sprint to begin to recognize compensation cost for unvested FON stock options granted before January 1, 2003, which are outstanding as of July 1, 2005. This requirement to recognize expense on additional unvested grants is not expected to be significant to Sprint.

## 20. Quarterly Financial Data (Unaudited)

2004	Quarter			
	1st	2nd	3rd	4th
	(millions, except per share data)			
Net operating revenues	\$6,707	\$6,869	\$6,922	\$6,930
Operating income (loss)	724	718	(2,715)	970
Income (loss) from continuing operations	225	236	(1,910)	437
Net income (loss)	225	236	(1,910)	437
Diluted earnings (loss) per common share from continuing operations <sup>(1),(2)</sup>	0.16	0.16	(1.32)	0.29
Basic earnings (loss) per common share from continuing operations <sup>(2)</sup>	0.16	0.16	(1.32)	0.30

2003	Quarter			
	1st	2nd	3rd	4th
	(millions, except per share data)			
Net operating revenues	\$6,339	\$6,463	\$6,714	\$6,681
Operating income (loss)	612	378	(430)	447
Income (loss) from continuing operations	99	(2)	(496)	107
Net income (loss)	1,670	7	(497)	110
Diluted and basic earnings (loss) per common share from continuing operations <sup>(1),(2)</sup>	0.07	—	(0.35)	0.07

(1) As the effects of including the incremental shares associated with options, restricted stock units and ESPP shares are antidilutive, both basic earnings per share and diluted earnings per share reflect the same calculation for the 2004 third quarter and the 2003 second and third quarters.

(2) On April 23, 2004, Sprint recombined its two tracking stocks. Each share of PCS common stock automatically converted into 0.5 shares of FON common stock. All per share amounts have been restated to reflect the recombination of the FON common stock and the PCS common stock as of the earliest period presented at an identical conversion ratio (0.5). The conversion ratio was also applied to dilutive PCS securities (mainly stock options, employee stock purchase plan shares, convertible preferred stock and restricted stock units) to determine diluted weighted average shares on a consolidated basis.

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## **21. Restatements of Previously Issued Financial Statements**

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In November 2004, Sprint restated previously-issued financial statements to correct an error related to the calculation of interest capitalized during construction. The financial statements were also restated to apply an adjustment previously recorded and disclosed in the 2003 fourth quarter related to the liability for medical coverage for participants in Sprint's long-term disability plan to the appropriate pre-2003 periods.

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## **22. Subsequent Events (Unaudited)**

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### ***Dividend Declaration***

In February 2005, Sprint's board of directors declared dividends of 12.5 cents on the FON common stock to shareholders of record at the close of business, March 10, 2005. Dividends will be paid March 31, 2005.

### ***New Director***

In February 2005, a new independent director, James H. Hance Jr., retired vice chairman of Bank of America Corporation, was appointed to the Sprint board of directors.

### ***Wireless Towers Lease***

In February 2005, Sprint reached a definitive agreement with Global Signal Inc. (Global Signal) under which Global Signal will have exclusive rights to lease or operate more than 6,600 communication towers from Sprint for a negotiated lease term which is the greater of the remaining terms of the underlying ground leases or up to 32 years, assuming successful renegotiation of the underlying ground leases at the end of their current lease terms. Sprint has committed to sublease space on approximately 6,400 of the towers from Global Signal for a minimum of ten years. Sprint will maintain ownership of the towers, and will continue to reflect the towers on its Consolidated Balance Sheet. Sprint expects to receive approximately \$1.2 billion in cash at the time of the closing. The transaction is expected to close in the second quarter of 2005.

### ***Spectrum Auction***

On February 15, 2005, the FCC concluded an auction of 242 personal communications services licenses. Wirefree Partners III, LLC (Wirefree) won licenses in 16 markets, subject to FCC approval. Sprint has agreements with Wirefree to lease certain spectrum in those 16 markets.



**SPRINT CORPORATION**

**SCHEDULE II—CONSOLIDATED VALUATION AND QUALIFYING ACCOUNTS**  
**Years Ended December 31, 2004, 2003, and 2002**

	Balance Beginning of Year	Additions (Deductions)			Balance End of Year
		Charged to Income (loss)	Charged to Other Accounts <sup>(1)</sup>	Other Deductions	
			(millions)		
<b>2004</b>					
Allowance for doubtful accounts	\$276	\$ 426	\$ 84	\$ (493) <sup>(2)</sup>	\$ 293
Valuation allowance—deferred income tax assets	\$620	\$ 50	\$ —	\$ —	\$ 670
<b>2003</b>					
Allowance for doubtful accounts	\$414	\$ 461	\$ 98	\$ (697) <sup>(2)</sup>	\$ 276
Valuation allowance—deferred income tax assets	\$573	\$ 47	\$ —	\$ —	\$ 620
<b>2002</b>					
Allowance for doubtful accounts	\$397	\$1,055	\$ 191	\$ (1,229) <sup>(2)</sup>	\$ 414
Valuation allowance—deferred income tax assets	\$686	\$ (113)	\$ —	\$ —	\$ 573

<sup>(1)</sup> Amounts charged to Other Accounts consist of receivable reserves for billing and collection services Sprint provides for certain Sprint PCS Affiliates. Uncollectible accounts are recovered from affiliates.

<sup>(2)</sup> Accounts written off, net of recoveries.

**EXHIBIT (12)**  
**COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES** Sprint Corporation

	2004	2003	2002	2001	2000
			(millions)		
Earnings					
Income (loss) from continuing operations before income taxes	\$(1,603)	\$ (504)	\$ 401	\$(2,350)	\$(1,052)
Capitalized interest	(57)	(59)	(90)	(110)	(107)
Net losses in equity method investees	41	79	119	175	256
Subtotal	(1,619)	(484)	430	(2,285)	(903)
Fixed charges					
Interest charges	1,339	1,496	1,560	1,383	1,169
Interest factor of operating rents	371	377	422	396	347
Total fixed charges	1,710	1,873	1,982	1,779	1,516
Earnings (loss), as adjusted	\$ 91	\$1,389	\$2,412	\$ (506)	\$ 613
Ratio of earnings to fixed charges	— (1)	— (2)	1.22	— (3)	— (4)

(1) Earnings, as adjusted, were inadequate to cover fixed charges by \$1.6 billion in 2004.

(2) Earnings, as adjusted, were inadequate to cover fixed charges by \$484 million in 2003.

(3) Earnings, as adjusted, were inadequate to cover fixed charges by \$2.3 billion in 2001.

(4) Earnings, as adjusted, were inadequate to cover fixed charges by \$903 million in 2000.

Note: The ratios of earnings to fixed charges were computed by dividing fixed charges into the sum of earnings (after certain adjustments) and fixed charges. Earnings included Income from continuing operations before income taxes, plus net losses in equity method investees, less capitalized interest. Fixed charges include interest on all debt of continuing operations, including amortization of debt issuance costs, and the interest component of operating rents.

## EXHIBIT (21)

Sprint Corporation

## SUBSIDIARIES OF REGISTRANT

Sprint Corporation is the parent. The subsidiaries of Sprint Corporation are as follows:

Name	Jurisdiction of Incorporation or Organization	Ownership Interest Held By Its Immediate Parent
<b>American Telecasting, Inc.</b>	Delaware	100
American Telecasting Development, Inc.	Delaware	100
Fresno MMDS Associates, A General Partnership	California Partnership	35
FMA Licensee Subsidiary, Inc.	California	100
American Telecasting of Anchorage, Inc.	Delaware	100
American Telecasting of Bend, Inc.	Delaware	100
American Telecasting of Billings, Inc.	Delaware	100
American Telecasting of Bismarck, Inc.	Delaware	100
American Telecasting of Central Florida, Inc.	Delaware	100
American Telecasting of Cincinnati, Inc.	Delaware	100
American Telecasting of Colorado Springs, Inc.	Delaware	100
American Telecasting of Columbus, Inc.	Delaware	100
American Telecasting of Denver, Inc.	Delaware	100
American Telecasting of Fort Collins, Inc.	Delaware	100
American Telecasting of Fort Myers, Inc.	Delaware	100
American Telecasting of Green Bay, Inc.	Delaware	100
American Telecasting of Minnesota, Inc.	Delaware	100
American Telecasting of Nebraska, Inc.	Delaware	100
American Telecasting of North Dakota, Inc.	Delaware	100
American Telecasting of South Dakota, Inc.	Delaware	100
American Telecasting of Hawaii, Inc.	Delaware	100
American Telecasting of Jackson, Inc.	Delaware	100
American Telecasting of Jacksonville, Inc.	Delaware	100
American Telecasting of Lansing, Inc.	Delaware	100
American Telecasting of Lincoln, Inc.	Delaware	100
American Telecasting of Little Rock, Inc.	Delaware	100
American Telecasting of Louisville, Inc.	Delaware	100
American Telecasting of Medford, Inc.	Delaware	100
American Telecasting of Michiana, Inc.	Delaware	100
American Telecasting of Monterey, Inc.	Delaware	100
American Telecasting of Oklahoma, Inc.	Delaware	100
American Telecasting of Portland, Inc.	Delaware	100
American Telecasting of Rapid City, Inc.	Delaware	100
American Telecasting of Redding, Inc.	Delaware	100
American Telecasting of Rockford, Inc.	Delaware	100
American Telecasting of Salem/Eugene, Inc.	Delaware	100
American Telecasting of Santa Barbara, Inc.	Delaware	100
American Telecasting of Santa Rosa, Inc.	Delaware	100
American Telecasting of Sarasota, Inc.	Delaware	100
American Telecasting of Seattle, Inc.	Delaware	90
American Telecasting of Sheridan, Inc.	Delaware	100
American Telecasting of Sioux Valley, Inc.	Delaware	100
American Telecasting of Toledo, Inc.	Delaware	100
American Telecasting of Youngstown, Inc.	Delaware	100
American Telecasting of Yuba City, Inc.	Delaware	100
Fresno Wireless Cable Television, Inc.	Washington	100
Fresno MMDS Associates, A General Partnership	California Partnership	65
Superchannels of Las Vegas, Inc.	Arizona	58
<b>Carolina Telephone and Telegraph Company</b>	North Carolina	100
NOCUTS, Inc.	Pennsylvania	100
SC One Company	Kansas	100
<b>Centel Corporation</b>	Kansas	91.4 <sup>(1)</sup>
Centel Capital Corporation	Delaware	100
Centel Directories LLC	Delaware	100

(1) Sprint Corporation owns all of the common stock. The voting preferred stock is held by 11 Sprint subsidiaries.

**EXHIBIT (21)**  
**SUBSIDIARIES OF REGISTRANT (continued)**

Sprint Corporation

Name	Jurisdiction of Incorporation or Organization	Ownership Interest Held By Its Immediate Parent
<b>(Centel Corporation continued)</b>		
Centel-Texas, Inc.	Texas	100
Central Telephone Company of Texas	Texas	100
Central Telephone Company	Delaware	100
Central Telephone Company of Virginia	Virginia	100
Sprint-Florida, Incorporated	Florida	100
<b>C FON Corporation</b>		
	Delaware	100
<b>People's Choice TV Corp.</b>		
Alda Gold, Inc.	Delaware	100
Alda Tucson, Inc.	Delaware	100
Alda Wireless Holdings, Inc.	Delaware	100
Broadcast Cable, Inc.	Indiana	24.9
PCTV Development Co.	Delaware	100
PCTV Gold, Inc.	Delaware	100
People's Choice TV of Albuquerque, Inc.	Delaware	100
People's Choice TV of Houston, Inc.	Delaware	100
People's Choice TV of Milwaukee, Inc.	Delaware	100
People's Choice TV of Salt Lake City, Inc.	Delaware	100
People's Choice TV of St. Louis, Inc.	Delaware	100
People's Choice TV of Tucson, Inc.	Delaware	100
Preferred Entertainment, Inc.	Delaware	100
Sat-Tel Services, Inc.	Arizona	100
SpeedChoice Equipment, Inc.	Delaware	100
SpeedChoice of Detroit, Inc.	Delaware	100
SpeedChoice of Phoenix, Inc.	Delaware	100
Waverunner, Inc.	Delaware	100
Wireless Cable of Indianapolis, Inc.	Delaware	91.6
Broadcast Cable, Inc.	Indiana	75.1
<b>Pin Drop Insurance, Ltd.</b>		
	Bermuda	100
<b>S-N Merger Corp.</b>		
	Delaware	100
<b>SPCS Caribe Inc.</b>		
	Puerto Rico	100
<b>Sprint Asian American, Inc.</b>		
	Kansas	100
<b>Sprint Capital Corporation</b>		
SprintFinCo, Inc.	Delaware	100
	Kansas	100
<b>SprintCom, Inc.</b>		
	Kansas	100
<b>Sprint Credit General, Inc.</b>		
	Kansas	100
<b>Sprint Credit Limited, Inc.</b>		
	Kansas	100
<b>Sprint eBusiness, Inc.</b>		
	Kansas	100
<b>Sprint Enterprise Network Services, Inc.</b>		
Sprint Paranet Canada, Inc.	Kansas	100
	Canada	100
<b>Sprint eWireless, Inc.</b>		
	Kansas	100
<b>Sprint Healthcare Systems, Inc.</b>		
	Kansas	100
<b>Sprint International Holding, Inc.</b>		
SIHI Mexico, S. de R.L. de C.V.	Kansas	100
SIHI New Zealand Holdco, Inc.	Mexico	99
Sprint International New Zealand	Kansas	100
SIHI Scandinavia AB	New Zealand	100
SIHI South Africa (Pty) Ltd.	Sweden	100
Sprint France SAS	South Africa	100
Sprint Hong Kong Limited	France	100
	Hong Kong	50

**EXHIBIT (21)**  
**SUBSIDIARIES OF REGISTRANT (continued)**

Sprint Corporation

Name	Jurisdiction of Incorporation or Organization	Ownership Interest Held By Its Immediate Parent
<i>(Sprint International Holding, Inc. subsidiaries continued)</i>		
Sprint International Argentina SRL	Argentina	99.9
Sprint International Australia Pty. Limited	Australia	100
Sprint International Austria GmbH	Austria	100
Sprint International Chile Limitada	Chile	99.9
Sprint International Colombia Ltda.	Colombia	99.9
Sprint International Communications Canada ULC	Canada	100
Sprint International Communications Singapore Pte. Ltd.	Singapore	100
Sprint International do Brasil Ltda.	Brazil	50
Sprint International Holding, Inc.—Japanese Branch Office	Japan	100
Sprint International Holding, Inc.—Shanghai Representative Office	China	100
Sprint International Japan Corp.	Japan	100
Sprint International Korea	Korea	100
Sprint International Norway AS	Norway	100
Sprint International Spain, S.L.	Spain	98
Sprint International Taiwan	Taiwan	100
Sprint International Venezuela, S.R.L.	Venezuela	100
SprintLink Belgium BVBA	Belgium	99.5
SprintLink Denmark ApS	Denmark	100
SprintLink France SAS	France	100
SprintLink Germany GmbH	Germany	100
SprintLink India Private Limited	India	100
SprintLink International (Switzerland) GmbH	Switzerland	95
SprintLink Ireland Limited	Ireland	100
SprintLink Italy S.r.l.	Italy	99
SprintLink Netherlands B.V.	Netherlands	100
SprintLink UK Limited	United Kingdom	100
Sprint Netherlands B.V.	Netherlands	100
Telecom Entilly Participacoes Ltda.	Brazil	50
JVCO Participacoes Ltda.	Brazil	50
Holdco Participacoes Ltda.	Brazil	99.9
Intelig Telecomunicacoes Ltda.	Brazil	99.9
<b>Sprint Long Distance, Inc.</b>	Delaware	100
<b>Sprint Long Distance of Virginia, Inc.</b>	Virginia	100
<b>Sprint Mexico, Inc.</b>	Kansas	100
<b>Sprint Mid-Atlantic Telecom, Inc.</b>	North Carolina	100
<b>Sprint Minnesota, Inc.</b>	Minnesota	100
<b>Sprint Missouri, Inc.</b>	Missouri	100
SC Eight Company	Kansas	100
<b>Sprint North Supply Company</b>	Ohio	100
Northstar Transportation, Inc.	Kansas	100
North Supply Company of Lenexa	Delaware	100
Sprint Products Group, Inc.	Kansas	100
<b>Sprint Payphone Services, Inc.</b>	Florida	100
<b>Sprint PCS Canada Holdings, Inc.</b>	Kansas	100
<b>Sprint Solutions, Inc.</b>	Delaware	100
<b>Sprint TELECENTERS, Inc.</b>	Florida	100
<b>Sprint/United Management Company</b>	Kansas	100
Sprint Services, Inc.	Kansas	100
<b>Sprint Ventures, Inc.</b>	Kansas	100

**EXHIBIT (21)**  
**SUBSIDIARIES OF REGISTRANT (continued)**

Sprint Corporation

Name	Jurisdiction of Incorporation or Organization	Ownership Interest Held By Its Immediate Parent
<b>Sprint Wavepath Holdings, Inc.</b>	Delaware	100
Sprint (Bay Area), Inc.	Florida	100
Wavepath Holdings, Inc.	Delaware	62.5
Bay Area Cablevision, Inc.	California	100
Transworld Wireless T.V.—Spokane, Inc.	Delaware	100
TTI Acquisition Corporation	Delaware	100
Desert Winds Comm, Inc.	California	100
WHI—San Diego, Inc.	California	100
Wireless Holdings Purchasing Co.	Delaware	100
<b>SWV Eight, Inc.</b>	Delaware	100
SWV Three Telephony Partnership	Delaware Partnership	22
Sprint Telephony PCS, L.P.	Delaware Partnership	40.8
Sprint PCS Assets, L.L.C.	Delaware	100
Sprint PCS License, L.L.C.	Delaware	100
PCS Leasing Company, L.P.	Delaware Partnership	51
<b>SWV Five, Inc.</b>	Delaware	100
PhillieCo Partners I, L.P.	Delaware Partnership	35.3
PhillieCo Sub, L.P.	Delaware Partnership	99
PhillieCo, L.P.	Delaware Partnership	99
PhillieCo Equipment & Realty Company, L.P.	Delaware Partnership	99
PhillieCo Partners II, L.P.	Delaware Partnership	35.3
PhillieCo Equipment & Realty Company, L.P.	Delaware Partnership	1
PhillieCo, L.P.	Delaware Partnership	1
PhillieCo Sub, L.P.	Delaware Partnership	1
<b>SWV Four, Inc.</b>	Delaware	100
PhillieCo Partners I, L.P.	Delaware Partnership	17.6
PhillieCo Partners II, L.P.	Delaware Partnership	17.6
SWV Two Telephony Partnership	Delaware Partnership	99
MinorCo, L.P.	Delaware Partnership	15
American PCS, L.P.	Delaware Partnership	(2)
American PCS Communications, LLC	Delaware	99(3)
APC PCS, LLC	Delaware	99(4)
APC Realty and Equipment Company, LLC	Delaware	99(4)
American Personal Communications Holdings, Inc.	Delaware	100
American PCS Communications, LLC	Delaware	(5)
APC PCS, LLC	Delaware	(5)
APC Realty and Equipment Company, LLC	Delaware	(5)
Sprint Spectrum Equipment Company, L.P.	Delaware Partnership	(2)
MASSPCSCO	Delaware Statutory Trust	100
Sprint Spectrum L.P.	Delaware Partnership	(2)
Sprint Spectrum Equipment Company, L.P.	Delaware Partnership	99(6)
Sprint Spectrum Realty Company, L.P.	Delaware Partnership	99(6)
WirelessCo, L.P.	Delaware Partnership	99(6)
Sprint Spectrum Realty Company, L.P.	Delaware Partnership	(2)
WirelessCo, L.P.	Delaware Partnership	(2)
Sprint Spectrum Holding Company, L.P.	Delaware Partnership	15
American PCS, L.P.	Delaware Partnership	99(7)
Sprint Telephony PCS, L.P.	Delaware Partnership	59.2

(2) MinorCo, L.P. holds a limited and preferred partnership interest of less than 1%.

(3) American PCS, L.P. holds the general partnership interest of greater than 99%.

(4) American PCS Communications, LLC holds the general partnership interest of greater than 99%.

(5) American Personal Communications Holdings, Inc. holds a limited partnership interest of less than 1%.

(6) Sprint Spectrum L.P. holds the general partnership interest of greater than 99%.

(7) Sprint Spectrum Holding Company, L.P. holds the general partnership interest of greater than 99%.

**EXHIBIT (21)**  
**SUBSIDIARIES OF REGISTRANT (continued)**

Sprint Corporation

Name	Jurisdiction of Incorporation or Organization	Ownership Interest Held By Its Immediate Parent
<b>(SWV Four, Inc. subsidiaries continued)</b>		
PCS Leasing Company, L.P.	Delaware Partnership	49
Sprint Spectrum L.P.	Delaware Partnership	99(7)
<b>SWV One, Inc.</b>		
SWV One Telephony Partnership	Delaware	100
MinorCo, L.P.	Delaware Partnership	1
	Delaware	
	Partnership	15
Sprint Spectrum Holding Company, L.P.	Delaware	15
	Partnership	
<b>SWV Seven, Inc.</b>		
SWV Three Telephony Partnership	Delaware	100
	Delaware	
	Partnership	78
<b>SWV Six, Inc.</b>		
MinorCo, L.P.	Colorado	100
	Delaware	
	Partnership	30
Sprint Spectrum Holding Company, L.P.	Delaware	
	Partnership	30
<b>SWV Three, Inc.</b>		
SWV Two Telephony Partnership	Delaware	100
	Delaware	
	Partnership	1
<b>SWV Two, Inc.</b>		
SWV One Telephony Partnership	Delaware	100
	Delaware	
	Partnership	99
<b>TDI Acquisition Corporation</b>	Delaware	100
WBS California, LLC	Delaware	100
WBSE Licensing Corporation	Delaware	100
WBSS Licensing Corporation	Delaware	100
WBS Idaho, LLC	Delaware	100
WBSB Licensing Corporation	Delaware	100
WBS Montana, LLC	Delaware	100
WBSH Licensing Corporation	Delaware	100
WBS Oregon, LLC	Delaware	100
WBSCB Licensing Corporation	Delaware	100
WBSK Licensing Corporation	Delaware	100
WBSR Licensing Corporation	Delaware	100
WBS Washington, LLC	Delaware	100
Kennewick Licensing, LLC	Delaware	100
WBSY Licensing Corporation	Delaware	100
Wireless Broadband Company LLC	Delaware	100
Wireless Broadband Services of America, LLC	Delaware	100
Wireless Broadcasting Systems of America, Inc.	Delaware	100
Wireless Broadcasting Systems of Boise, Inc.	Delaware	100
Wireless Broadcasting Systems of Coos Bay, Inc.	Delaware	100
Wireless Broadcasting Systems of Eureka, Inc.	Delaware	100
Wireless Broadcasting Systems of Ft. Pierce, Inc.	Delaware	100
WBSFP Licensing Corporation	Delaware	100
Wireless Broadcasting Systems of Helena, Inc.	Delaware	100
Wireless Broadcasting Systems of Klamath, Inc.	Delaware	100
Wireless Broadcasting Systems of Melbourne, Inc.	Delaware	100
WBSM Licensing Corporation	Delaware	100
Wireless Broadcasting Systems of Roseburg, Inc.	Delaware	100
Wireless Broadcasting Systems of Sacramento, Inc.	Delaware	100
Wireless Broadcasting Systems of West Palm, Inc.	Delaware	100
WBSWP Licensing Corporation	Delaware	100
Wireless Broadcasting Systems of Yakima, Inc.	Delaware	100
Wireless Broadcasting Systems of Knoxville, LLC	Delaware	100
Cherokee Wireless of Knoxville, Inc.	Delaware	100
<b>Transworld Telecommunications, Inc.</b>	Pennsylvania	100
Wavepath Holdings, Inc.	Delaware	37.5

(7) Sprint Spectrum Holding Company, L.P. holds the general partnership interest of greater than 99%.

**EXHIBIT (21)**  
**SUBSIDIARIES OF REGISTRANT (continued)**

Sprint Corporation

Name	Jurisdiction of Incorporation or Organization	Ownership Interest Held By Its Immediate Parent
<b>UCOM, Inc.</b>	Missouri	100
Sprint Communications Company L.P.	Delaware Partnership	34.1
<b>MASSFONCO</b>	Delaware Statutory Trust	100
Sprint Communications Company of New Hampshire, Inc.	New Hampshire	100
Sprint Communications Company of Virginia, Inc.	Virginia	100
Sprint Communications LLC	Delaware	100
Sprint Directory Trademark Company, LLC	Delaware	100
Sprint Licensing, Inc.	Kansas	100
United Telephone Company of Kansas	Kansas	100
USST of Texas, Inc.	Texas	100
SprintCom Equipment Company L.P.	Delaware	49
Sprint Enterprises, L.P.	Delaware Partnership	48.9
MinorCo, L.P.	Delaware Partnership	40
PhillieCo Partners I, L.P.	Delaware Partnership	47.1
PhillieCo Partners II, L.P.	Delaware Partnership	47.1
Sprint Spectrum Holding Company, L.P.	Delaware Partnership	40
Sprint Global Venture, Inc.	Kansas	(9)
SGV Corporation	Kansas	100
<b>United Telephone Company of the Carolinas</b>	South Carolina	100
SC Two Company	Kansas	100
<b>United Telephone Company of Eastern Kansas</b>	Delaware	100
Sprint/United Midwest Management Services Company	Kansas	20
United Teleservices, Inc.	Kansas	100
<b>United Telephone Company of Florida</b>	Florida	100
<b>United Telephone Company of Indiana, Inc.</b>	Indiana	100
SC Four Company	Kansas	100
<b>United Telephone Company of Kansas</b>	Kansas	99(8)
Sprint/United Midwest Management Services Company	Kansas	80
<b>United Telephone Company of New Jersey, Inc.</b>	New Jersey	100
<b>United Telephone Company of the Northwest</b>	Oregon	100
<b>United Telephone Company of Ohio</b>	Ohio	100
SC Five Company	Kansas	100
<b>United Telephone Company of Pennsylvania, The</b>	Pennsylvania	100
SC Six Company	Kansas	100
<b>United Telephone Company of Southcentral Kansas</b>	Arkansas	100
<b>United Telephone Company of Texas, Inc.</b>	Texas	100
SC Seven Company	Kansas	50
<b>United Telephone Company of the West</b>	Delaware	100
<b>United Telephone-Southeast, Inc.</b>	Virginia	100
SC Three Company	Kansas	100
<b>US Telecom, Inc.</b>	Kansas	100
ASC Telecom, Inc.	Kansas	100
LCF, Inc.	California	100
SC Seven Company	Kansas	50
Sprint Communications Company L.P.	Delaware Partnership	58.9

(8) Sprint Corporation owns all of the common stock. The voting preferred stock is held by Sprint Communications Company L.P.

(9) Ucom, Inc., US Telecom, Inc., and Utelcom, Inc. each holds less than 1% of the common stock.



**EXHIBIT (21)**  
**SUBSIDIARIES OF REGISTRANT (continued)**

Sprint Corporation

Name	Jurisdiction of Incorporation or Organization	Ownership Interest Held By Its Immediate Parent
<b>(US Telecom, Inc. subsidiaries continued)</b>		
SprintCom Equipment Company L.P.	Delaware	51
Sprint Enterprises, L.P.	Delaware	
	Partnership	51
Sprint Global Venture, Inc.	Kansas	(9)
Sprint Iridium, Inc.	Kansas	100
United Telecommunications, Inc.	Delaware	100
US Telecom of New Hampshire, Inc.	New Hampshire	100
<b>Utelcom, Inc.</b>	Kansas	100
Private TransAtlantic Telecommunications System, Inc.	Delaware	100
Private Trans-Atlantic Telecommunications System (N.J.), Inc.	New Jersey	100
Sprint Communications Company L.P.	Delaware Partnership	4.9
Sprint Global Venture, Inc.	Kansas	(9)
Sprint International Incorporated	Delaware	100
Dial—The Israeli Company for International Communication Services LTD	Israel	54.4
SIHI Mexico S. de R.L. de C.V.	Mexico	1
Sprint Global Venture, Inc.	Kansas	86
Sprint Hong Kong Limited	Hong Kong	50(10)
Sprint International Argentina SRL	Argentina	.1
Sprint International do Brasil Ltda.	Brazil	50
Sprint International Caribe, Inc.	Puerto Rico	100
Sprint International Chile Limitada	Chile	.1
Sprint International Colombia Ltda.	Colombia	.1
Sprint International Communications Corporation	Delaware	100
Sprint Communications Company L.P.	Delaware	
	Partnership	1.9
Sprint Global Venture, Inc.	Kansas	13
Sprint International Network Company LLC	Delaware	100
Sprint International Incorporated—Beijing Representative Office	China	100
Sprint International Spain, S.L.	Spain	2
SprintLink Belgium BVBA	Belgium	.5
SprintLink International (Switzerland) GmbH	Switzerland	5
SprintLink Italy S.r.l.	Italy	1
Sprint Telecommunications Services GmbH	Germany	100
<b>Wireless Cable of Florida, Inc.</b>	Florida	100

(9) Ucom, Inc., US Telecom, Inc., and Utelcom, Inc. each holds less than 1% of the common stock.

(10) Held in trust for Sprint International Holding, Inc.

**EXHIBIT 23(a)****CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM Sprint Corporation**

We consent to the incorporation by reference in the Registration Statements (Form S-3, No. 33-58488; Form S-4, No. 333-123333, Form S-8, No. 33-31802; Form S-8, No. 33-59326; Form S-8, No. 33-59349; Form S-8, No. 33-25449; Form S-8, No. 333-42077; Form S-8, No. 333-46491; Form S-8, No. 333-68737; Form S-8, No. 333-56938; Form S-8, No. 333-59124; Form S-8, No. 333-76783; Form S-8, No. 333-92809; Form S-8, No. 333-54108; Form S-8, No. 333-75664; Form S-8, No. 333-103689; Form S-8, No. 333-103691; Form S-8, No. 333-105244; Form S-8, No. 333-106086; Form S-8, No. 333-111956; Form S-8, No. 333-115621; Form S-8, No. 333-115607; Form S-8, No. 333-115608; Form S-8, No. 333-115609; and Form S-8, No. 333-124189) of Sprint Corporation, and in the related Prospectuses, of our report dated March 10, 2005 with respect to the consolidated balance sheet of Sprint Corporation and subsidiaries (the Company) as of December 31, 2004, and the related consolidated statements of operations, comprehensive income (loss), cash flows, and shareholders' equity for the year ended December 31, 2004, and the related financial statement schedule, and our report dated March 10, 2005, with respect to management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2004 and the effectiveness of the Company's internal control over financial reporting as of December 31, 2004, which reports appear in the December 31, 2004 annual report on Form 10-K/A of Sprint Corporation.

/s/ KPMG LLP

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KPMG LLP

Kansas City, Missouri  
April 25, 2005

**EXHIBIT 23(b)****CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM** Sprint Corporation

We consent to the incorporation by reference in the Registration Statements (Form S-3, No. 33-58488; Form S-4, No. 333-123333; Form S-8, No. 33-31802; Form S-8, No. 33-59326; Form S-8, No. 33-59349; Form S-8, No. 33-25449; Form S-8, No. 333-42077; Form S-8, No. 333-46491; Form S-8, No. 333-68737; Form S-8, No. 333-56938; Form S-8, No. 333-59124; Form S-8, No. 333-76783; Form S-8, No. 333-92809; Form S-8, No. 333-54108; Form S-8, No. 333-75664; Form S-8, No. 333-103689; Form S-8, No. 333-103691; Form S-8, No. 333-105244; Form S-8, No. 333-106086; Form S-8, No. 333-111956; Form S-8, No. 333-115621; Form S-8, No. 333-115607; Form S-8, No. 333-115608; Form S-8, No. 333-115609; and Form S-8, No. 333-124189) of Sprint Corporation and in the related Prospectuses of our report dated February 3, 2004 (except for Note 2, as to which the date is April 23, 2004, and Note 21, as to which the date is November 2, 2004) with respect to the consolidated financial statements and schedule of Sprint Corporation as of December 31, 2003 and for the two years in the period then ended, included in this Annual Report (Form 10-K/A) for the year ended December 31, 2004.

/s/ ERNST & YOUNG LLP

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Ernst & Young LLP

Kansas City, Missouri  
April 25, 2005

**EXHIBIT 31(a)**

**CERTIFICATIONS**

I, Gary D. Forsee, Chief Executive Officer, certify that:

1. I have reviewed this annual report on Form 10-K/A of Sprint Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 29, 2005

/s/ GARY D. FORSEE

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Gary D. Forsee  
Chairman and Chief Executive Officer

**EXHIBIT 31(b)**

**CERTIFICATIONS**

I, Robert J. Dellinger, Executive Vice President and Chief Financial Officer, certify that:

1. I have reviewed this annual report on Form 10-K/A of Sprint Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financing reporting.

Date: April 29, 2005

/s/ ROBERT J. DELLINGER

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Robert J. Dellinger  
Executive Vice President  
and Chief Financial Officer

**EXHIBIT 32(a)**

**Certification Pursuant to 18 U.S.C. Section 1350,  
As Adopted Pursuant to Section 906 of the  
Sarbanes-Oxley Act of 2002**

In connection with the annual report of Sprint Corporation (the "Company") on Form 10-K/A for the period ending December 31, 2004, as filed with the Securities and Exchange Commission (the "Report"), I, Gary D. Forsee, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

April 29, 2005

/s/ GARY D. FORSEE

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Gary D. Forsee  
Chairman and Chief Executive Officer

**EXHIBIT 32(b)**

**Certification Pursuant to 18 U.S.C. Section 1350,  
As Adopted Pursuant to Section 906 of the  
Sarbanes-Oxley Act of 2002**

In connection with the annual report of Sprint Corporation (the "Company") on Form 10-K/A for the period ending December 31, 2004, as filed with the Securities and Exchange Commission (the "Report"), I, Robert J. Dellinger, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

April 29, 2005

/s/ ROBERT J. DELLINGER

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Robert J. Dellinger  
Executive Vice President  
and Chief Financial Officer

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